

**Budget Paper A**

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**ECONOMIC REVIEW AND OUTLOOK**

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## ■ NATIONAL AND INTERNATIONAL ECONOMIES

Global economic growth slowed considerably in 2011. Concerns over Europe and the potential impact on world economies have led the International Monetary Fund (IMF) to lower its forecast for growth in global output to 3.3% in 2012, down from 3.8% in 2011 and 5.2% in 2010.

After a sharp rebound in 2010, the U.S. economy slowed in 2011. Private domestic investment and foreign exports both lost momentum due partly to temporary factors, including the supply disruptions from the Japanese tsunami in early 2011. Although economic growth slowed to 1.7% in 2011, gains in employment growth and consumer spending suggest the U.S. economy may be recovering.

In Europe, declining financial market conditions, concerns over fiscal sustainability and government austerity measures weighed negatively on global economic activity. The Euro Area is expected to experience a mild recession in 2012, with growth projected to decline by 0.5%.

The global slowdown and decelerating export demand is also expected to impact China in 2012, reducing economic growth to 8.2%, its slowest growth since 1999. The U.S. economy is expected to grow by a moderate but steady 1.8% in 2012, held back by the gradual wind-down of high household debt.

The Canadian economy has performed much better than most other advanced economies during the current global slowdown, growing by 2.5% in 2011 – second among the G7 nations.

Private business investment, bolstered by strong corporate balance sheets, accelerated their capital spending in 2011, helping to fill the void caused by the unwinding of government fiscal stimulus programs. Household spending growth was also lower in 2011.

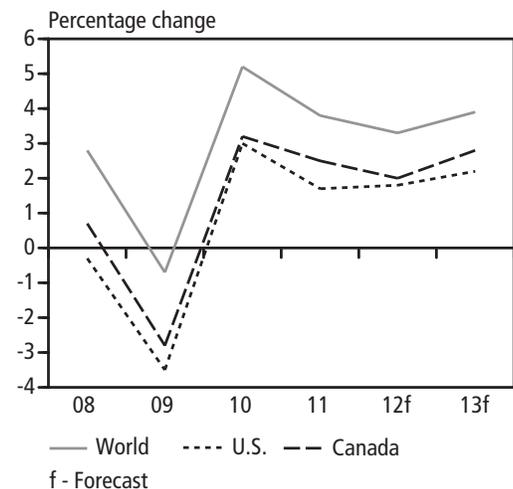
The Canadian economy generated 265,200 jobs over the year, up 1.6% from 2010, leading to a 4.7% increase in labour income, the strongest growth since 2007. Corporate profits were up 15%, following 21% growth in 2010.

Despite slower demand and some excess capacity in the economy, Canadian consumer price inflation, driven largely by higher oil prices, rose 2.9% in 2011, the highest rate in 20 years. Higher oil prices, in turn, helped push up the value of the Canadian dollar to \$1.011 US, a 35-year high.

According to the Bank of Canada, growth in the Canadian economy is projected to slow to 2.0% in 2012 and pick up to 2.8% in 2013. Corporations are expected to continue to increase investment spending in 2012, supported by strong financial positions. Consumer spending is expected to remain steady despite the relatively high household debt levels.

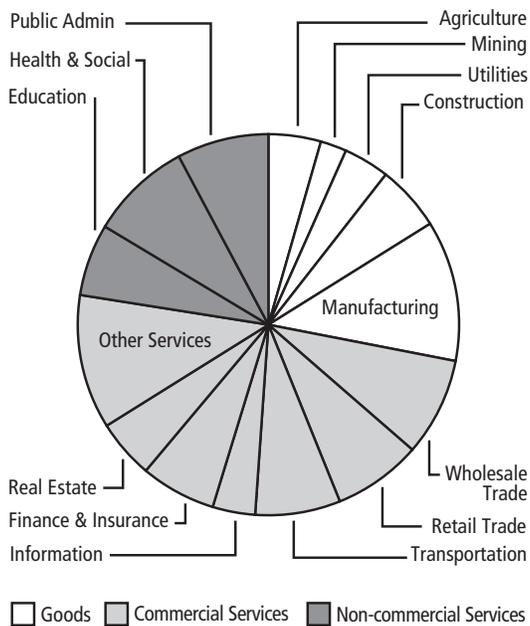
Several risks and challenges remain for the global economy, including sovereign debt issues in Europe, volatile commodity markets (especially for oil) due to geo-political uncertainties, fiscal adjustments in advanced economies and slower than anticipated export sales in developing Asia. Additional risks for Canada include higher interest rates, further currency appreciation and slow productivity gains. On the upside, the recovery in U.S. employment could boost U.S. growth more than anticipated and easier credit conditions in China could stimulate domestic spending.

**Real GDP Growth, 2008 to 2013f**



Sources: Statistics Canada  
Bank of Canada  
U.S. Bureau of Economic Analysis  
International Monetary Fund

### Manitoba Economy, 2011p



p - Preliminary

Source: Manitoba Bureau of Statistics

### MANITOBA ECONOMY

The Manitoba economy is highly diversified. There are a number of similar-sized industries in the province, with a balanced presence in manufacturing, transportation, agriculture, electric energy generation, mining, and finance and insurance. The annual economic growth in Manitoba is among the most stable in Canada, reflecting some of the structural advantages, including a broad industrial base, balanced exports to interprovincial and global markets, relatively healthy household balance sheets and an increasingly engaged labour force. As a result, the province remains well-positioned in the face of changing global economic conditions.

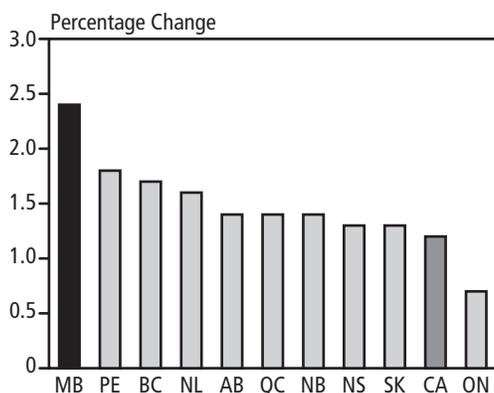
Over five years from 2005 to 2010, Manitoba's economy averaged 2.4% growth per year, the highest growth among provinces and double the national average increase of 1.2%. In 2011, Manitoba's economy continued to perform well, growing at a steady pace. Unlike the slowdown for Canada as a whole, Manitoba's real gross domestic product (GDP) growth was relatively unchanged at 2.2% in 2011, following 2.3% growth in 2010. Labour income increased by 4.8% in 2011, the strongest in three years, and supported 4.9% growth in nominal GDP.

From 2006 to 2011, private capital investment in the province has been particularly strong, increasing by 34%, compared to a 14% national increase. The increase in business investment has contributed to labour productivity gains. According to Statistics Canada, from 1997 to 2010, Manitoba's labour productivity growth was the third strongest among provinces and above the national increase. This increase in productivity improves the competitiveness of Manitoba businesses and supports sustainable growth in production.

Manitoba's Consumer Price Index (CPI) increased 3.0% in 2011, slightly above the 2.9% national increase. Transportation and food costs boosted overall consumer prices, while clothing and footwear, and household operation costs eased pressure on prices in 2011. For 2012, Manitoba Finance's survey of economic forecasters indicates CPI will average about 1.9% in both Manitoba and Canada.

Manitoba is also attracting an increasing number of skilled workers and their families from around the world. Over the last decade, immigration to Manitoba has more than tripled from 4,600 in 2002 to almost 16,000 in 2011, which is the largest influx since 1946. Population growth has supported robust domestic demand in the province.

### Real GDP, Average Annual Growth, 2005 to 2010



Source: Statistics Canada

## Retail Trade

Since 2000, Manitoba's retail sales have grown the third fastest among provinces at an annual average rate of 5.3%, and ahead of Canada at 4.2%. Supported by population growth and improving incomes, sales grew by 4.6% in 2011, higher than the national increase of 3.6%.

Manitoba's retail sales were supported by strong automotive purchases. The number of new motor vehicles sold in the province increased by 7.0% in 2011, the largest annual growth in nine years, which contributed to a 4.4% gain in retail sales for motor vehicle dealerships. Food and beverage, the largest retail category, increased 2.7%, and department and general store sales gained 3.3% in 2011. Manitoba retail sales, excluding gasoline, increased 2.8% in 2011, following a 4.9% increase in 2010. For the last five years, Manitoba's retail sales growth has exceeded Canada's.

Real GDP in the retail trade sector gained 1.6% in 2011, according to Manitoba Bureau of Statistics estimates. This followed a strong 5.0% gain in 2010. Retail trade is a significant portion of the economy, comprising 12% of employment in Manitoba in 2011, and 7% of GDP. Over the last five years, value added in the retail sector expanded 3.4% annually, the third highest among all sectors.

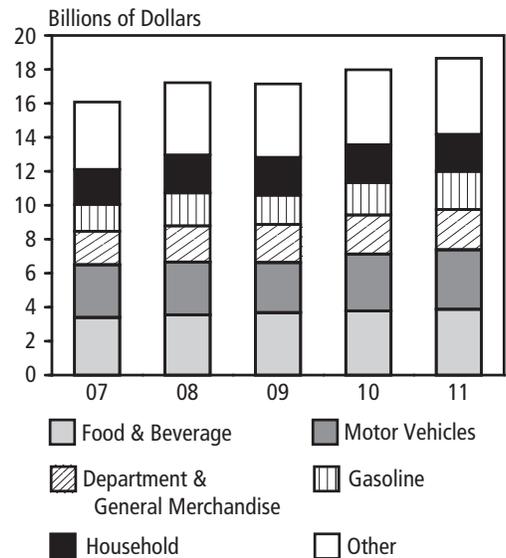
Manitoba households continue to enjoy relatively healthy personal balance sheets. Manitobans have the lowest personal debt per capita in Canada, as measured by personal debt held at commercial banks, including mortgages, credit cards and non-business loans. Likewise, Manitoba's mortgage arrears rate (the percentage of mortgages in arrears for 90 days or more) in 2011 was 0.28%, the lowest among provinces and below the national rate of 0.41%. A survey of investment intentions by Statistics Canada projects retail trade investment in Manitoba will increase 6.2% in 2012, following an estimated gain of 11.5% in 2011, both ahead of the national average.

## Housing

Last year, housing starts in Manitoba hit a 24-year high, growing 3.3%, with 6,083 new housing units. Multiple-housing starts were also at their highest level since 1987, growing 17.8% in 2011 to 2,252 units.

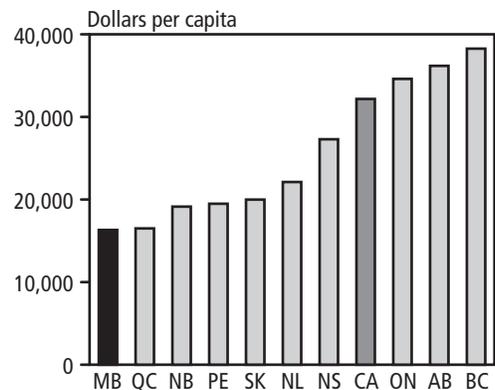
As household demographics change and international immigration continues to grow, in particular through the Provincial Nominee Program, the housing industry has evolved to accommodate those needs with increased construction of rental accommodations and increased condominium construction. Row-housing construction has also increased significantly, up 73.6% in 2011, as property developers provide more affordable new housing units in the province.

## Manitoba Retail Sales by Type



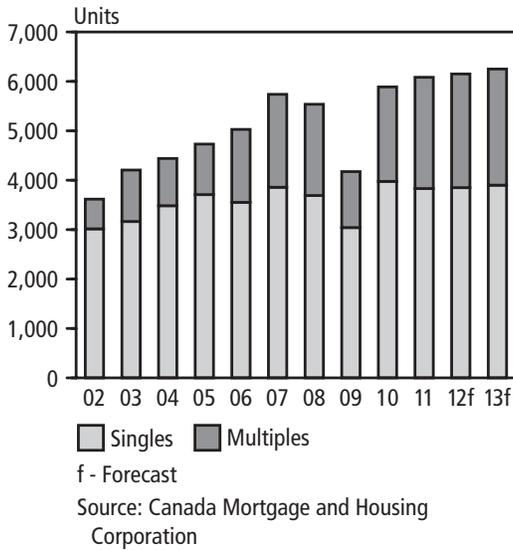
Source: Statistics Canada

## Personal Debt, 2011



Source: Statistics Canada

### Manitoba Housing Starts



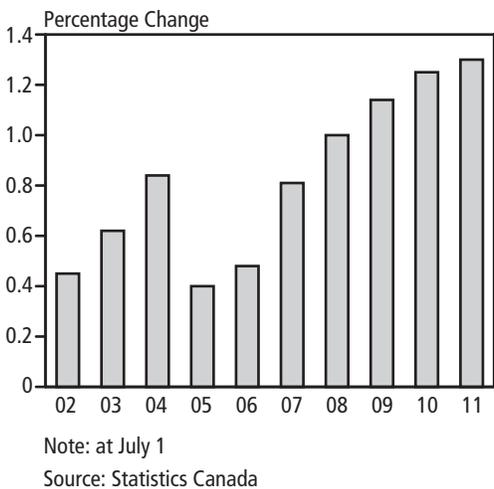
The vacancy rate in Winnipeg was 1.1% in 2011, below the national average. It is forecast to increase to 1.2% in 2012, which should help support continued multiple-unit construction in the province. Both large- and small-scale multi-unit developers have plans for additional projects in Manitoba.

The value of residential building permits was unchanged from 2010. However, at roughly \$1.2 billion in 2011, the value of permits is more than three times the level it was in 2000. Low interest rates, healthy employment growth, positive net immigration and wage growth are all factors that should continue to support housing activity in the province.

Manitoba’s average resale price in 2011 was \$234,604, the fourth lowest nationally. Prices in Manitoba were the most affordable of the four Western provinces. Multiple Listing Service (MLS) sales activity increased 5.9% in 2011 to 13,944 units. Canada Mortgage and Housing Corporation (CMHC) forecasts that prices will increase on average by 3.1% per year and the number of sales will advance on average by 2.0% per year in 2012 and 2013. MLS price and volume growth in Manitoba is expected to be above the national increase.

The Royal Bank’s Affordability survey indicates that although prices in Manitoba continue to increase, affordability of homes in the province remain in line with the long-term affordability measures. Average resale prices have increased over the past decade, but these increases parallel the overall Canadian increase, and average house prices in Manitoba remain affordable when compared to other provinces according to MLS data and the latest CMHC outlook.

### Manitoba Population



### Population

Manitoba’s 2011 population was estimated at 1,250,574 persons, fifth largest among provinces, based on the July 1st official population estimate. Manitoba’s population grew by a record 16,039 persons in 2011, the largest increase in at least 40 years, and the second consecutive year of 1.3% annual population growth, tied for third best among provinces and above Canada’s increase of 1.0%.

International immigration was 15,954 persons in 2011, a new record and a key factor in Manitoba’s strong population growth. Manitoba’s Provincial Nominee Program, which represents 77% of all immigration to the province, has been a key contributor to the 11.4% average annual growth in net immigration since 2007.

Population growth continues, with the latest January 2012 population estimate now 1,258,260, up 15,696 from January 2011, maintaining the 1.3% annual growth trend. In the past decade, Manitoba’s population increased by almost 100,000 persons, more than double the prior ten-year

increase of 42,000 persons. In the past five years, population increased on average by 13,300 persons annually, growing on average by 1.1%. According to Manitoba Finance's survey of demographic forecasters, Manitoba's population is forecast to increase 1.4% and 1.3% in 2012 and 2013, respectively.

Total net migration has reversed the trend of the prior decade, with Manitoba gaining close to 52,000 persons since 2001 as opposed to a net loss of about 17,000 persons.

Due to both international immigration and increasing fertility rates, Manitoba's demographic profile is "growing younger." A majority of the new immigrants to the province are under 49 years of age. As a result, the median age for Manitoba as a whole has fallen for the third consecutive year. The median age is currently at 37.6 years, down from 37.8 in 2009. Canada's median age is more than two years higher than Manitoba's, and Manitoba ranks as the third-youngest population behind Alberta and Saskatchewan.

## Manufacturing

Manufacturing is the province's largest industrial sector, accounting for about 11% of GDP and 10% of employment. Exports of Manitoba manufactured goods account for almost 60% of total foreign exports.

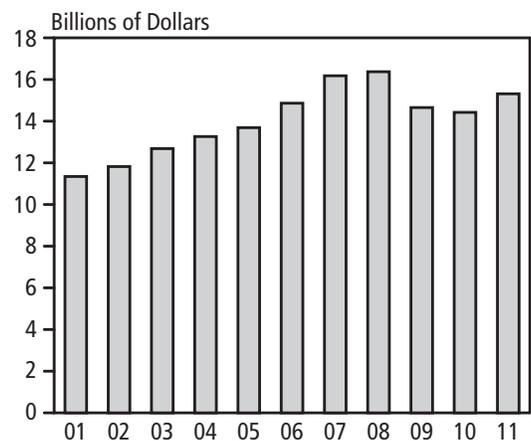
The sector is relatively broad based with many medium-sized industries. The two largest industries are food manufacturing and transportation equipment manufacturing. Manitoba's diversity of manufacturing industries provides balanced and sustainable development for the overall economy. The sector is also resilient, with sales averaging 3.0% growth annually over the past decade compared to 0.5% for Canada overall.

As a result of the global recession, Manitoba's manufacturing sales declined in 2009 and 2010, from a \$16.4 billion high in 2008 to \$14.4 billion in 2010, a 12% drop in value. Manitoba shipments have since recovered almost half of the loss, advancing 6.2% in 2011 to \$15.3 billion. Foreign exports of manufactured goods increased by 10.4% in 2011, while employment in the sector increased by 2.7% following 2.8% growth in 2010.

The principal increases in sales in 2011 were in chemical products, machinery and equipment, primary metals and the aerospace parts sectors. Chemical sales advanced 34% in 2011, with renewed demand for fertilizer, industrial chemicals and ethanol as a clean energy alternative fuel. Global sales of tractors and other farm equipment continues, and has helped machinery and equipment sales advance 24% in 2011. As demand for refined metals remained firm, primary metals sales have been particularly strong, increasing 13% last year, following 14% growth in 2010. Shipments of aerospace parts recovered in 2011, growing 9%, after stagnating in 2010.

Increasing global competition is creating many challenges for the provincial manufacturing sector. To remain competitive and improve productivity, Manitoba manufacturers are investing in new technology and implementing lean manufacturing principles with the support of government initiatives, such as the Manufacturing Investment Tax Credit. According to Statistics Canada, capital investments in machinery and equipment and new structures accelerated 68.7% in 2011, and are expected to increase a further 18.2% in 2012.

### Manitoba Manufacturing Sales

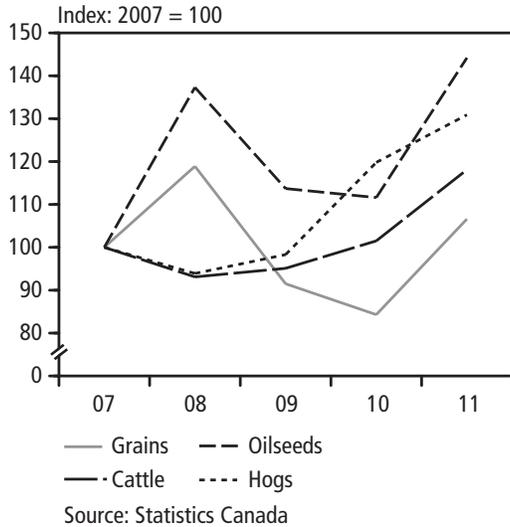


Source: Statistics Canada

## Agriculture

Agriculture is an important sector of the Manitoba economy with many linkages to other industries. The agriculture sector represented 3.9% of the Manitoba economy in 2011, and employed 3.7% of the workforce. Crop, livestock and processed food products represented one-third of total provincial exports last year.

### Manitoba Agricultural Price Index

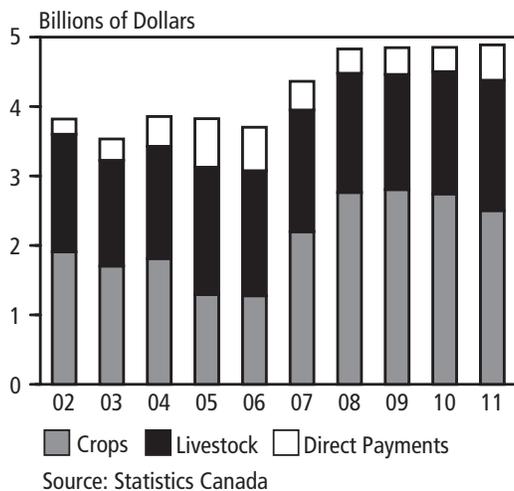


Manitoba’s agriculture producers have faced a number of pressures. Over the past two seasons, many crop producers were impacted by severe weather conditions, including heavy rainfall and widespread flooding. Livestock producers have been challenged by commodity price volatility, fluctuating currency, and trade barriers, including the Country of Origin Labelling (“COOL”) legislation. This U.S. law requires country of origin labels on all fresh beef, pork and lamb products sold in the U.S. The law has posed significant problems for Canadian producers exporting livestock to the U.S.

Reflecting adverse weather conditions, seeded area declined by double digits for almost every crop at the start of the 2011 season. Flooded fields reduced overall yields for all major crops. Production at the end of the year saw significant decreases for wheat (32.8%), canola (25.3%), oats (36.5%), and barley (46.4%). This contributed to a 14.7% decline in overall real agricultural GDP in 2011 following a 13.1% decrease in 2010.

While prices for Manitoba cattle and calves are increasing, total supply has generally been declining since 2006 due to contracting demand, especially from the U.S. In 2011, exports to the U.S. receded 51.7%, while demand for domestic beef processing fell 14.3%. Interprovincial exports shrank 2.2% last year.

### Manitoba Farm Cash Receipts



The province’s hog sector saw prices rise 9.2% in 2011 to the highest level in a decade. Export volume for hogs gained 3.0%, after three consecutive years of double-digit declines, and pork processing increased 1.5%. However, hog inventories showed signs of stability after years of difficult market conditions. The total inventory of hogs was stable with a 0.4% gain over 2011. The breeding stock increased slightly at 0.1%, the first increase since 2007.

Despite the challenges for crops and livestock, total farm cash receipts have remained stable over the past four years. Total receipts increased 0.8% in 2011. With a combination of higher prices, lower production and a reduction in inventory, crop receipts decreased 8.8% with oilseeds receipts down 4.9% and wheat receipts up 6.8%. Livestock receipts increased 6.7% in 2011 on the strength of a 12.8% gain in hog receipts. Offsetting strength in hogs was a 5.2% decline in cattle receipts.

Direct program payments were up 45.8% in 2011, composed of higher crop insurance payments and AgriRecovery assistance. These payments were triggered by the early season excess moisture and low production. Direct payments were the highest since 2006, which was high due to support from the Canadian Agricultural Income Stabilization program, created to cope with the Bovine Spongiform Encephalopathy crisis of 2003.

In the medium-term outlook, there are positive factors for livestock producers, both international and local. Among them, the World Trade Organization ruled in favour of Canada against COOL legislation, citing trade violations. South Korea, an important export market for Manitoba, re-opened its market to Canadian beef in January 2012. At the same time, Manitoba's slaughter capacity will expand, including a \$13 million plant upgrade in Carman that will employ up to 100 people and increase production from 80 head per week to 1,000. This plant is expected to open by 2013 and operate at full capacity in 2014.

### Minerals

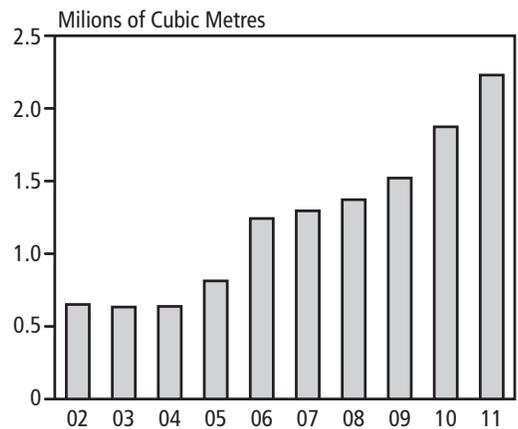
The mining sector is Manitoba's second-largest primary industry. The major mineral commodities produced in Manitoba include nickel, copper, zinc, gold and petroleum. The most significant metal produced in the province is nickel, while crude oil has increased its importance as a share of the mining sector.

The expansion of petroleum production in the province has led to increased diversity in Manitoba's minerals sector. Since 2004, the contribution of oil production has more than doubled from 20% of real mining GDP to the current 45%. During the same period, the contribution of metal ore production has declined from 62% to 45% of total mining output. Despite the redistribution within the sector, its contribution to total output in Manitoba has remained relatively stable.

In 2011, the sector directly generated over \$700 million of real GDP, comprising 2% of the economy and employing 1% of the workforce. Mining output represented a fifth of Manitoba exports. After adjusting for inflation, minerals output increased 6.3% in 2011. This follows a strong 12.6% expansion in 2010.

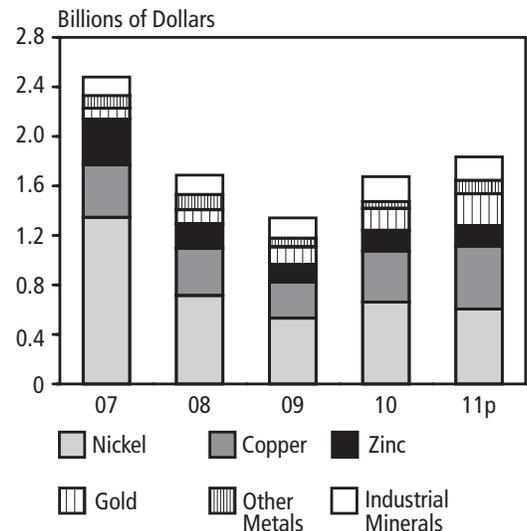
Commodity prices for many minerals fell sharply during the onset of the global recession and rebounded as the recovery took hold. Prices for most Manitoba-produced major minerals increased in 2011 with gold, copper and oil showing double-digit percentage gains from 2010 levels. As a result, total value of production increased 22.0% in 2011, after a 31.2% gain in the previous year. The value of metals production increased 11.7% in 2011.

### Manitoba Oil Production



Source: Manitoba Innovation, Energy and Mines

### Manitoba Mineral Production



p - Preliminary

Note: excludes petroleum

Source: Natural Resources Canada

A decrease in the value of nickel (8.4%) and zinc (1.0%) production was more than offset by gains in gold (44.6%) and copper (23.1%). Though a small proportion of Manitoba's metal output, silver gained 78.6% in 2011, largely due to high market prices.

Oil production has boomed in the province, and 2011 was another year of strong growth and record output. Petroleum output increased 20.7% in 2011 to 2.3 million cubic metres (14.2 million barrels) and prices jumped 20.3%. This led to a 45.2% increase in value of Manitoba oil production to \$1.3 billion.

Spending in metal mining exploration and deposit appraisals is strong, estimated to have increased 32.3% in 2011 to \$111 million, and is projected to expand 13.7% to \$126 million in 2012. In both years, spending is estimated to be fairly balanced between base and precious metals.

Capital investment in the minerals sector is estimated to have grown 7.8% in 2011 after more than doubling in 2010, the best performance among provinces since coming out of the global recession. In 2012, investment intentions indicate mining companies are expected to boost spending 14.5% to \$1.5 billion.

## Electricity Generation

Manitoba Hydro is responsible for electricity generation, transmission and distribution within the province. Virtually all electricity produced in Manitoba is generated from water power, a renewable, clean source of energy. In total, Manitoba Hydro has 14 hydro-electric generating stations, primarily on the Winnipeg, Saskatchewan and Nelson rivers. These stations have a capacity of more than 5,000 megawatts (MW). Additional generating capacity of 457 MW is available from steam and combustion turbines in Brandon and Selkirk.

### Manitoba Hydro Generating Stations

Station	MW
Limestone	1,340
Kettle Rapids	1,220
Long Spruce	1,010
Grand Rapids	479
Kelsey	250
Wuskwatim	200
Seven Sisters Falls	165
Great Falls	136
Jenpeg	133
Pine Falls	89
Pointe du Bois	77
Slave Falls	67
McArthur Falls	55
Laurie River 1 & 2	10
<b>Total Hydraulic Capacity</b>	<b>5,231</b>

Source: Manitoba Hydro

Manitoba sales account for approximately 78% of total sales, with the rest exported to the United States and to other provinces. In 2011, electricity sales grew 1.5%.

Growth in overall demand for electricity has prompted the addition of new generating capacity. Construction is now complete on the 200 MW Wuskwatim generating station, a low-impact hydro-generating unit at Taskinigup Falls on the Burntwood River. Plans are in place to have power flow from this station in the first half of 2012.

Manitoba has several other projects underway or planned. One of these, Keeyask, is a 695 MW facility that would be built about 725 kilometres northeast of Winnipeg on the lower Nelson River, 35 kilometres upstream of the existing Kettle Rapids generating station. The estimated capital investment is \$5.6 billion.

The Conawapa generating station is another generating facility being planned. This station would be the largest hydro-electric project ever built in Manitoba. On the Lower Nelson River, 28 kilometres downstream from the existing Limestone generating station, Conawapa will have a generating capacity of 1,485 MW. The water storage for the station is designed to remain almost entirely within the natural banks of the Nelson River,

significantly limiting flooding. The estimated cost of the generating station is \$7.8 billion, with a construction period of eight to eight and a half years. The earliest in-service date is projected to be 2024.

To transmit the new capacity to market and improve overall system reliability and dependability, Manitoba Hydro is proposing to build Bipole III, a high voltage direct current transmission line. Subject to regulatory approval, the project schedule calls for construction to get underway in late 2012, with a 2017 in-service date.

## Foreign Merchandise Exports

Manitoba continues to diversify its foreign export base. As global economic growth shifts, Manitoba's export base has diversified. The U.S., which continues to be Manitoba's largest market, now accounts for 61% of total foreign exports compared to 79% in 2001. Manitoba's share of exports to Asia (including China, Japan, and South Korea) has doubled from 11% in 2001 to the current 22%. In contrast, Canadian exports to the U.S. currently account for 73% of total exports and Asia accounts for 11%.

Despite a deceleration of global economic growth in 2011, Manitoba's foreign merchandise exports increased 15.0% to \$11.8 billion, nearing the heightened levels seen in 2007 and 2008. Compared to the 10-year average, last year's foreign export sales were 14.3% higher. In contrast, Canadian exports sales were up 12.0% in 2011 and 7.9% higher than the 10-year average.

Most sectors reported growth in exports in 2011, with 21 of the largest 25 export industries increasing. Metals played a significant role, particularly with nickel and copper. The closure of a copper smelter in mid-2010 has led to international sales of Manitoba unrefined copper ore. Copper ore exports went from zero in 2009 to \$618 million in 2011. There was a smaller but related decrease of \$155 million in refined and smelted metal exports.

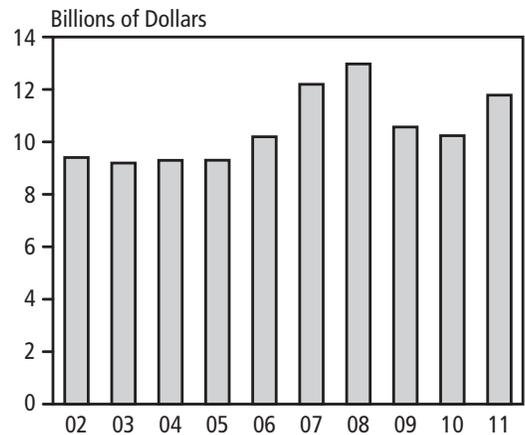
Other notable export increases in 2011 were crude oil, processed meat, pharmaceuticals, canola oil, and agricultural equipment manufacturing.

With modest economic growth in the U.S., exports to American markets increased 10.3% in 2011. Exports to non-U.S. destinations increased 23.3%.

The goods sold into the U.S. represent a diverse array of commodities, with no single product dominating exports. Major goods exported include vegetable oil, aerospace product and parts, agricultural equipment, pharmaceutical and medicine products, electricity generation, livestock (hogs), and crude oil.

Manitoba's principal exports to non-U.S. markets are processed foods and primary goods. Exports to Asia include metals (refined and ore), grains, oilseeds and processed meat. Japan and Mexico, Manitoba's third- and fourth-largest trading partners, respectively, mainly purchased agricultural commodities, including processed meat, wheat and oilseeds. Hong Kong and Sweden imported primarily Manitoba metals, with the former buying refined metals and the latter purchasing copper ore.

## Manitoba Foreign Exports



Source: Statistics Canada

## Top 10 Manitoba Export Destinations, 2011

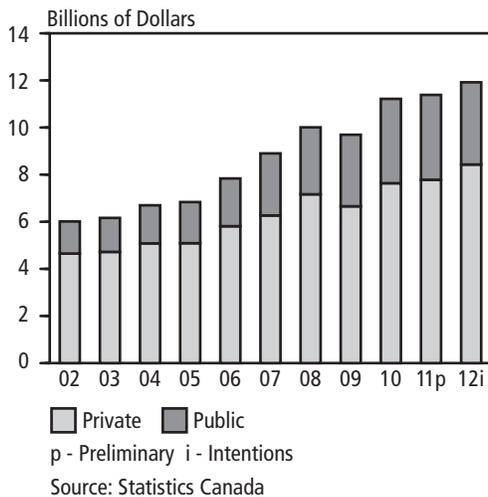
	Percentage Change from 2010
1. United States	10.3
2. China	40.5
3. Japan	13.6
4. Mexico	-4.8
5. South Korea	94.0
6. Hong Kong	-19.8
7. Taiwan	39.7
8. Sweden	137.1
9. United Arab Emirates	8.9
10. Russia	155.4
Others	18.7
Total Foreign Exports	15.0

Source: Statistics Canada

## Investment

Capital investment has accelerated in Manitoba since 2006. Total capital investment growth averaged 7.8% annually, third best among provinces and above Canada's growth of 4.0%. Over the same period, private capital investment grew by an average 6.0% per year, third best among provinces, and above Canada's growth rate of 2.6%. Public sector investment grew 12.2%, second best among provinces, and above the national increase of 9.5%. Manitoba 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 and Public Capital Investment



Manitoba's total investment expenditure has been driven by spending on structures. Since 2000, investment in structures increased from 47% to 68% of total investment in 2011. Investment in machinery and equipment currently accounts for 32% of total investment. From 2006 to 2011, investment in structures increased 10.0% on an annual basis, ranked third highest among provinces, and machinery and equipment rose 3.7% annually, ranked fourth best.

Total capital investment growth in Manitoba slowed from 15.7% growth in 2010 to 1.5% in 2011, reaching a record \$11.4 billion. Private investment increased 1.9% in 2011, following a 14.7% increase in 2010. Public investment increased 0.5% last year, down from 18.0% in 2010. As several major projects were completed or were near completion, investment in structures declined by 3.5% in 2011. Investment in machinery and equipment increased by 14.1%.

Statistics Canada's 2012 outlook for capital investments projects 4.7% growth in Manitoba to almost \$12 billion. Private sector capital spending is expected to grow by 8.3% to \$8.4 billion, and public investment is

expected to decline 3.1% to \$3.5 billion. Investment in structures is expected to increase by 6.8% and investment in machinery and equipment will soften to 0.3% growth.

Among industrial sectors, mining (+14.5%), housing (+5.1%) and manufacturing (+18.2%) are expected to lead capital spending in 2012. Within manufacturing, machinery and equipment investment is expected to increase by 20.4% this year, following a 63.3% jump in 2011, providing a significant boost to Manitoba's labour productivity. The unwinding of government stimulus infrastructure programs and wrapping up of construction at the Wuskwatim hydro-electric dam are expected to decrease public administration and utilities capital spending by 9.3% and 12.2%, respectively.

## Research and Innovation

Innovation is a fundamental catalyst in the process of bringing new products, new processes and new services to market. It allows for the creation of new ideas, new economic activity and progressive development opportunities. As international trade expands and global competition for all product and services accelerate, investing in leading-edge innovation businesses is essential. Innovation enhances productivity, competitiveness, standard of living and quality of life and wealth.

Manitoba is an ideal environment for investing in innovation. 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. Provincial government support for innovation and competitiveness is strong. From the Manitoba Research and Development Tax Credit through the Commercialization Support for Business Program to the reductions in business taxes, Manitoba has created an environment for innovation.

The results have been increases in R&D and increases in productivity. From 2005-2009 (latest available data), the level of R&D capital spending increased annually by 4.7%, well above the national annual increase of 2.0%. From 1997 to 2010, labour productivity growth in Manitoba was the third highest among provinces and above the national increase.

## Labour Market

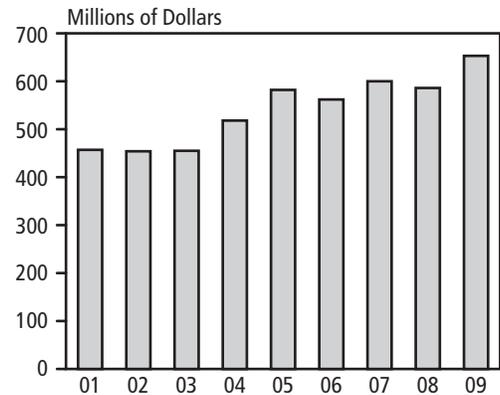
The labour market in Manitoba stabilized and remained balanced in 2011 after a solid recovery in 2010. Total employment increased by 4,700 following a gain of 11,500 new jobs in 2010. Full-time employment gains (4,800) in 2011 more than offset the small decline in part-time employment.

Employment growth in 2011 was closely matched by growth in the labour force. As a result, the unemployment rate was unchanged at 5.4%. Last year, Manitoba maintained the second-lowest unemployment rate among provinces for the third consecutive year, well below the national average of 7.4%. Manitoba's labour force participation rate was the second highest among provinces in 2011, showing a high level of engagement of the population in the labour market.

The bulk of last year's employment gains were in the goods-producing sector with growth in construction, manufacturing and utilities partially offset by losses in agriculture and mining. In the services sector, employment gains were led by health care, finance, insurance and real estate, accommodation and food services.

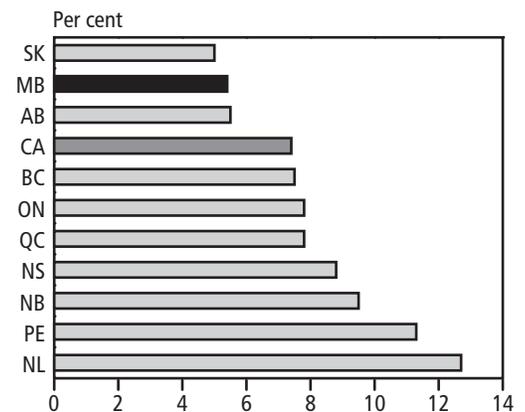
Six of the 10 major occupational groups in Manitoba recorded employment growth in 2011. The largest job gains occurred in construction trades, management, and natural and applied sciences. The largest declines were in primary industry operators, retail salespersons and services, and social sciences (education).

## Total R&D Spending in Manitoba, 2001 to 2009



Source: Statistics Canada

## Unemployment Rate by Province, 2011



Source: Statistics Canada

## ■ MANITOBA OUTLOOK

Recent economic indicators show a slower than anticipated growth in the global economy. As a result, the IMF has lowered the outlook for the global economy in general. However, Manitoba's stable economic and demographic fundamentals will produce modest growth over the next two years.

Based on the Manitoba Finance survey of independent economic forecasters, Manitoba's real GDP is projected to grow 2.3% in 2012, up from an estimated 2.2% growth in 2011. The economy is expected to grow by 2.4% in 2013. Manitoba's forecast growth rate in 2012 is above the national average and matches Canada in 2013. Nominal GDP is projected to increase 3.9% in 2012 and 4.4% in 2013.

Manitoba's labour market balance is expected to continue over the next two years as the unemployment rate is expected to remain unchanged at 5.4% in 2012 and fall to 5.3% in 2013. Employment is expected to increase 0.9% in 2012 and a further 1.4% in 2013. Consumer prices are expected to moderate, slowing to 1.9% growth in 2012 and rising to 2.0% in 2013. Population growth is expected to remain strong over the outlook period.

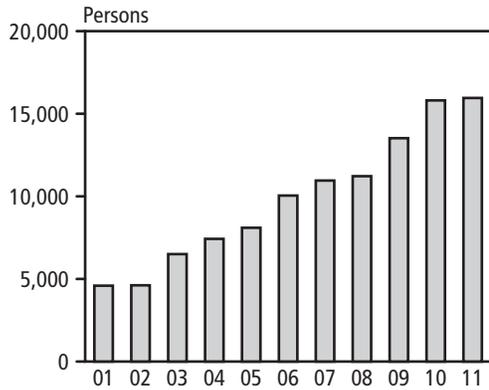
### Manitoba Outlook at a Glance

	2011	2012f	2013f
		(% Change)	
Gross Domestic Product			
Real	2.2	2.3	2.4
Nominal	4.9	3.9	4.4
Employment	0.8	0.9	1.4
Unemployment Rate (%)	5.4	5.4	5.3
CPI	3.0	1.9	2.0
Population	1.3	1.4	1.3

f – Forecast

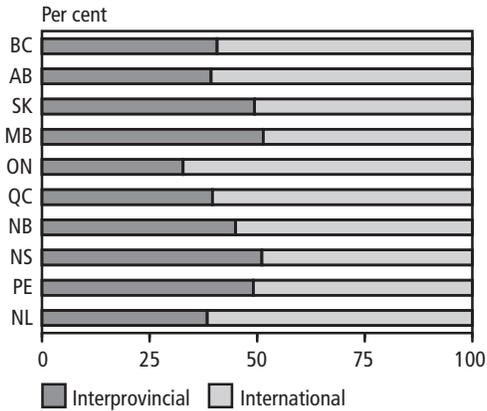
Sources: 2011: Statistics Canada and Manitoba Bureau of Statistics  
2012 and 2013: Manitoba Finance, survey of economic forecasters

### Manitoba Immigration



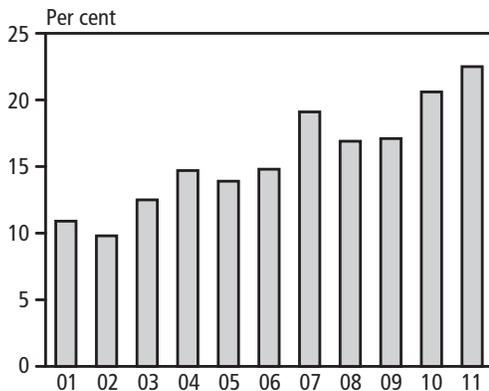
Source: Statistics Canada

### Ratio of Interprovincial to International Exports, By Province, 2010



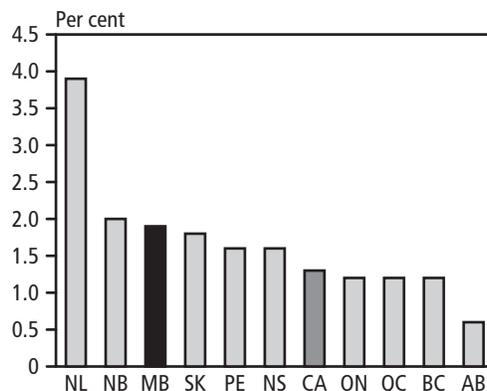
Source: Statistics Canada

### Asia Share of Total Manitoba Foreign Exports



Source: Statistics Canada

### Business Sector Labour Productivity Growth



Source: Statistics Canada

**MANITOBA ECONOMIC STATISTICS, 2007 TO 2011**

	2007	2008	2009	2010	2011
	Millions of Dollars				
<b>POPULATION</b>					
July 1 (000's)	1,194	1,206	1,219	1,235	1,251
<b>GROSS DOMESTIC PRODUCT<sup>1</sup></b>					
Nominal	48,902	51,676	51,554	54,275	56,947
Real (\$2002)	41,098	42,728	42,516	43,498	44,469
<b>SECTORS</b>					
Farm Cash Receipts	4,363	4,829	4,848	4,852	4,889
Crops	2,198	2,763	2,805	2,743	2,502
Livestock	1,752	1,716	1,657	1,760	1,877
Direct Payments	413	350	386	349	509
Manufacturing Shipments	16,179	16,373	14,653	14,422	15,313
Mining	3,071	2,527	1,966	2,580	3,149
Electric Power Sales	1,667	1,737	1,560	1,569	1,592
Export Sales	613	634	399	410	354
Housing Starts (no. of units)	5,738	5,537	4,174	5,888	6,083
Retail Trade	14,016	14,980	14,915	15,752	16,477
New Car Sales (no. of units)	47,099	48,029	43,995	45,355	48,546
<b>FOREIGN EXPORTS</b>					
Total Exports	12,196	12,972	10,567	10,237	11,771
U.S.	8,348	8,905	7,138	6,544	7,217
<b>LABOUR MARKET</b>					
Labour Force (000's)	626.4	635.0	641.8	654.9	660.2
Employment (000's)	598.6	608.5	608.3	619.8	624.5
Participation Rate (%)	69.0	69.3	69.1	69.6	69.3
Unemployment Rate (%)	4.4	4.2	5.2	5.4	5.4
Average Weekly Earnings (\$)	729.47	749.59	771.29	786.35	808.11
<b>INVESTMENT</b>					
Total	8,903	10,008	9,694	11,218	11,385
Private	6,267	7,166	6,657	7,635	7,784
Public	2,635	2,842	3,037	3,582	3,601
Non-residential	6,803	7,698	7,448	8,567	8,578
Housing	2,099	2,310	2,246	2,651	2,807
<b>CONSUMER PRICE INDEX</b>					
(Index, 2002 = 100)	110.9	113.4	114.1	115.0	118.4
<b>BANKRUPTCIES<sup>2</sup></b>					
Business	102	103	65	68	53
Farm	14	22	17	6	5
Personal	2,041	2,025	2,443	1,994	1,553

<sup>1</sup> 2011 are preliminary estimates by Manitoba Bureau of Statistics

<sup>2</sup> 2011 Manitoba Finance estimate

Sources: Statistics Canada and Manitoba Bureau of Statistics

Totals may not add due to rounding.

2007	2008	2009	2010	2011	
Annual Percentage Change					
0.8	1.0	1.1	1.3	1.3	<b>POPULATION</b> July 1 (000's)
8.3	5.7	-0.2	5.3	4.9	<b>GROSS DOMESTIC PRODUCT<sup>1</sup></b> Nominal
2.8	4.0	-0.5	2.3	2.2	Real (\$2002)
17.8	10.7	0.4	0.1	0.8	<b>SECTORS</b> Farm Cash Receipts
72.4	25.7	1.5	-2.2	-8.8	Crops
-2.7	-2.1	-3.5	6.2	6.7	Livestock
-34.1	-15.1	10.2	-9.6	45.8	Direct Payments
8.9	1.2	-10.5	-1.6	6.2	Manufacturing Shipments
17.6	-17.7	-22.2	31.2	22.0	Mining
-1.8	4.2	-10.2	0.5	1.5	Electric Power Sales
-12.6	3.4	-37.0	2.6	-13.6	Export Sales
14.1	-3.5	-24.6	41.1	3.3	Housing Starts (no. of units)
8.9	6.9	-0.4	5.6	4.6	Retail Trade
2.6	2.0	-8.4	3.1	7.0	New Car Sales (no. of units)
19.6	6.4	-18.5	-3.1	15.0	<b>FOREIGN EXPORTS</b> Total Exports
8.8	6.7	-19.8	-8.3	10.3	U.S.
1.8	1.4	1.1	2.0	0.8	<b>LABOUR MARKET</b> Labour Force (000's)
1.7	1.7	0.0	1.9	0.8	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
5.9	2.8	2.9	2.0	2.8	Average Weekly Earnings (\$)
13.6	12.4	-3.1	15.7	1.5	<b>INVESTMENT</b> Total
7.9	14.3	-7.1	14.7	1.9	Private
30.0	7.8	6.9	18.0	0.5	Public
12.6	13.2	-3.2	15.0	0.1	Non-residential
16.9	10.0	-2.8	18.0	5.9	Housing
2.0	2.3	0.6	0.8	3.0	<b>CONSUMER PRICE INDEX</b> (Index, 2002 = 100)
-36.3	1.0	-36.9	4.6	-22.4	<b>BANKRUPTCIES<sup>2</sup></b> Business
-61.1	57.1	-22.7	-64.7	-22.4	Farm
-9.4	-0.8	20.6	-18.4	-22.1	Personal

