



Province of Manitoba

Mid-Year Report

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INTRODUCTION

Manitoba's economy is forecast to grow by 2.4% in 2010 and by 2.6% in 2011.

The return to economic expansion in 2010 comes after a year when Manitoba's economy posted virtually no growth. However, the province's relative economic performance in 2009 was still the best among provinces and substantially better than the national GDP decline of 2.5%.

Manitoba's economic growth has averaged 2.1% per year over the past five years, the highest growth among provinces and above the average national increase of 1.2%.

Manitoba's economy is highly diversified with a relatively large service sector and a diversified export base. These and other factors have made Manitoba the most stable provincial economy over the past decade.

INTERNATIONAL AND CANADIAN ECONOMIC DEVELOPMENTS

2010 marked a turnaround for the global economy. After the worst global recession since the end of the Second World War, the world economy posted a solid recovery through late 2009 and the first half of 2010,

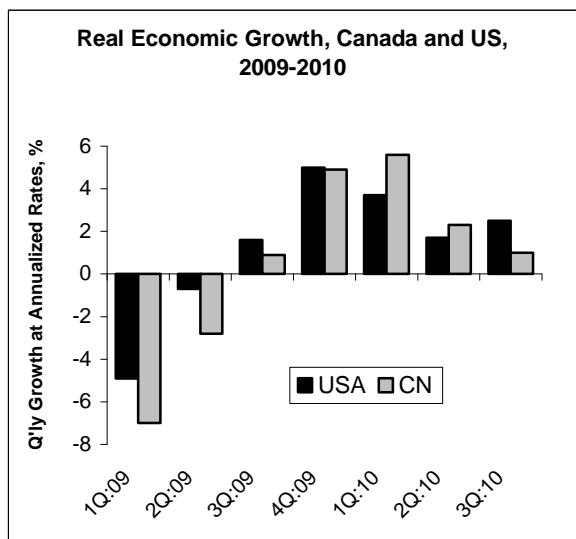
despite significant financial market turmoil and the weak global demand conditions.

World economic growth in 2011 will continue to be led by developing economies. The International Monetary Fund projects 2011 GDP growth of 8.4% for developing Asia. Advanced economies are projected to grow by only 2.2% next year, constrained by increasing fiscal consolidation, weak growth in both consumer demand and business investment, and substantial external trade imbalances. The United States, Canada's largest trading partner, is expected to grow by 2.3%.

Canada fared better than most other advanced economies through the downturn. The country's real GDP decline during the global recession was smaller than any other G7 economy. Significant fiscal stimulus and strong pent-up demand helped propel the Canadian economy in the latter part of 2009 and early 2010. However, annualized real growth in the second quarter eased significantly to only 2.3%, and slowed further to only 1.0% in the third quarter.

While the Canadian economy is forecast to grow slowly over the next few quarters, growth is projected to remain positive and the recovery will be sustained. In line with private

sector forecasts, the Bank of Canada projects that national real GDP will grow by 2.3% in 2011, down from the 3.0% GDP increase expected for 2010.



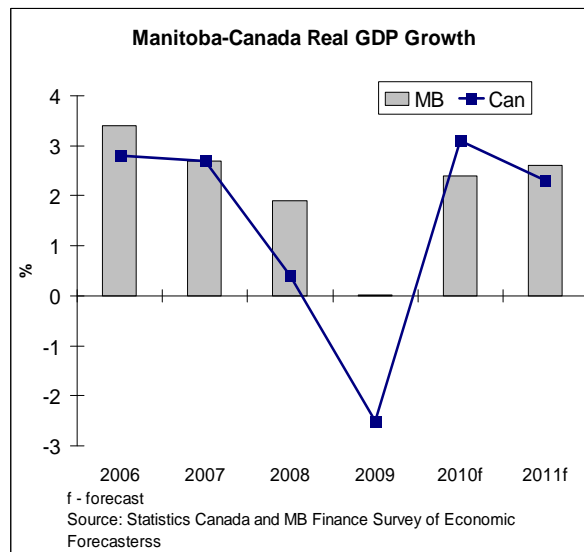
A number of factors are expected to limit economic growth over the next year, including continuing strength in the Canadian currency, a weak recovery in the United States, scaling back in fiscal stimulus programs, diminishing strength in Canada’s housing market and considerable uncertainty regarding financial markets caused by developments in European sovereign credit markets. These and other major risks to the outlook could jeopardize the recovery.

Canada’s moderate growth is not forecast to bring down Canada’s unemployment rate significantly over the next two years. On average, forecasters project the national unemployment rate will decline to 7.4% in 2012 from 8.1% in 2010. Consumer price inflation is forecast at 2.0% in both 2011 and 2012, in line with the inflation target established by the Bank of Canada.

MANITOBA’S ECONOMIC PERFORMANCE

Manitoba’s economy is projected to grow by 2.4% in 2010, based on Manitoba Finance’s survey of independent economic forecasters. Manitoba’s growth is forecast to be below the projected national increase of 3.1%, reflecting the fact that Manitoba’s economy did not

decline last year, while several other provinces registered substantial contractions.



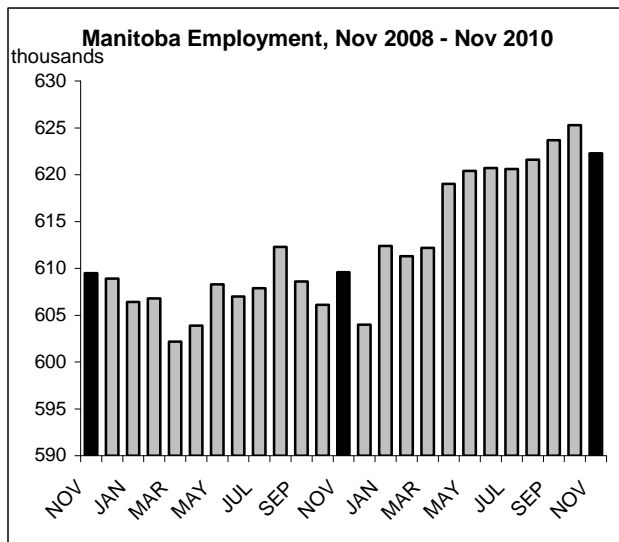
Nominal GDP is forecast to grow by 5.1% in 2010, below Canada’s projected increase of 6.1%, and by 4.6% in 2011, in line with Canada’s increase. Manitoba’s nominal GDP declined by 0.1%, in 2009, the first decline since 1991.

Manitoba labour market performance has been among the strongest in Canada. Manitoba’s employment, through the first eleven months of 2010 has increased by 2.0% relative to the same period in 2009, ahead of the national increase of 1.6% and fourth strongest among provinces. In 2009, Manitoba was one of only three provinces to post employment growth.

Labour force growth has also been strong, increasing 2.1% in 2010. This is only the second time in the past twenty years that the annual labour force has increased by over 2%. The strong labour market has pushed Manitoba’s labour force participation rate up to 69.9% so far in 2010, the highest annual rate recorded in modern times.

Despite employment growth, exceptional labour force growth has pushed the unemployment rate to 5.3% this year, slightly above the 2009 rate of 5.2%. Manitoba’s 2010 unemployment rate remains second-lowest among provinces and well below the

national rate of 8.0%. Manitoba's youth unemployment rate, at 11%, was also second lowest among provinces and better than the Canadian average rate of 14.8%.



After outpacing Canada's labour income growth over the last three years, Manitoba's total labour income growth in 2010 trails the national increase. Labour income in the first three quarters of the year increased by 3.1%, below Canada's increase of 3.7%. In 2009, labour income in the province grew by 2.1% compared to Canada's 0.1% rise.

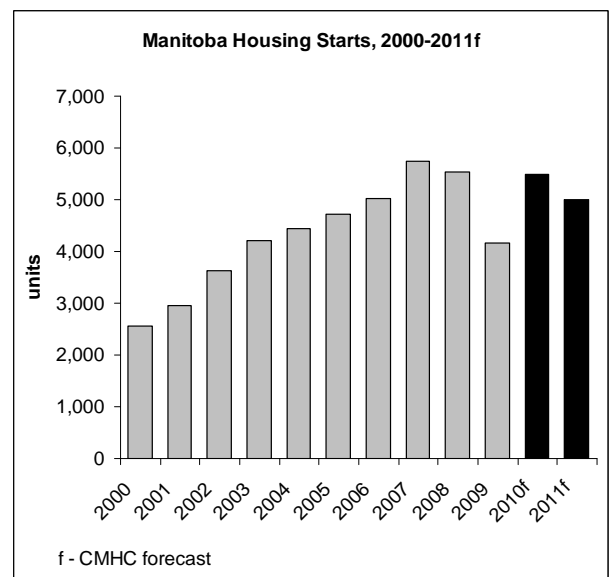
Softer consumer confidence was a principal factor in the decline in retail sales in 2009. Retail sales fell by 0.4% in Manitoba last year, a modest decline compared to the 2.9% reduction nationally, and the first drop in the province's retail sales since 1991. In the first three quarters of 2010, Manitoba's retail sales have rebounded by 6.3%, the largest increase among provinces this year.

Manitoba's consumers continue to enjoy relatively healthy personal balance sheets. Manitobans have the lowest personal debt per capita in Canada. Likewise, Manitoba's mortgage arrears rate (the percentage of mortgages in arrears for 90 days or more) in the first nine months of 2010 was only 0.28%, below the national rate of 0.43%.

Consumer and business bankruptcies in Manitoba have declined in 2010. The

bankruptcy rates in the province have been modest relative to most other provinces and, relative to population, have been among the lowest in Canada over the past several years.

Housing starts have increased dramatically this year, and are expected to approach pre-recession levels established in 2008. After declining 25% last year, starts have increased 45% through September of the year compared to the same period in 2009. Canada Mortgage and Housing Corporation (CMHC) projects that total Manitoba housing starts will reach 5,500 this year, slightly below the 2008 level. For 2011, CMHC forecasts housing starts will decline by 9.1%, a slightly larger drop than the 6.1% decline forecast for Canada overall.



With Manitoba's increasing population and relatively robust economic performance, growth in Manitoba's average residential price has exceeded the national average annual growth in prices in each of the last seven years. Manitoba home prices are expected to continue to remain firm. CMHC forecasts Manitoba's average residential resale price will grow 8.9% in 2010 and a further 1.8% in 2011. In both years, Manitoba's average residential home price increase will exceed the national average.

The rebound in housing activity has increased the value of building permits issued in

Manitoba through the first ten months of 2010 by 14.3%. The value of residential permits issued is up 28.8% while non-residential permits (institutional/government, commercial and industrial) declined by 7.5% after a 16.1% increase in 2009.

Manufacturing is the province’s largest economic sector, accounting for about 12% of GDP. Despite numerous challenges, manufacturing sales by Manitoba producers outperformed national sales in each of the last nine years. In the first three quarters of 2010, Manitoba’s manufacturing sales have declined 4.9% while national sales have increased by 9.9%. Manufacturing shipments will be adversely affected into the future due to the closure of the HudBay Minerals Inc. Flin Flon smelter in June 2010.

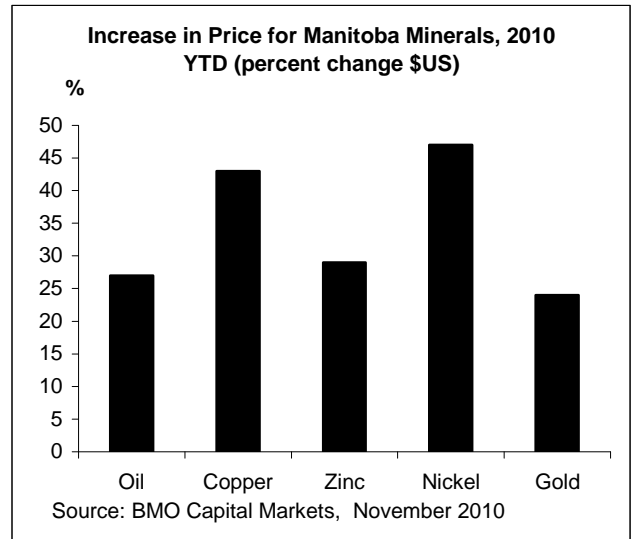
Manitoba’s agriculture producers continue to face a number of challenges. These include uncertain price outlooks for crops and livestock commodities, the continuing high value of the Canadian dollar, and Country of Origin Labelling (“COOL”), the U.S. law which requires labels for fresh beef, pork and lamb, sold in the U.S. to show the country of origin of the product.

In the first three quarters of 2010, total cash receipts to Manitoba producers have declined 1.4%, compared to an overall national decline of 3.2%. Manitoba crop receipts declined 4.1% while livestock receipts increased 3.2%. In 2009, farm cash receipts rose 1.7% after increases totalling almost 30% over the preceding two years.

Excess precipitation has adversely affected Manitoba’s crop production in 2010. Statistics Canada estimated in September that the volume of wheat production this year declined by 27%, while canola production fell by 32%. Production volumes for oats and barley declined by 36% and 47%, respectively. These declines in production will adversely affect GDP growth in 2010 and on exports in 2010 and 2011.

Manitoba’s mining sector has been affected by significant price movements over the past

few years. Prices for many Manitoba minerals fell sharply beginning in the latter half of 2008, but have recently rebounded. On a year-to-date basis, prices for most Manitoba-produced major minerals are now above 2008 levels.



A number of major developments affect the outlook for the mining industry in Manitoba over the next few years. Alexis Minerals Corporation has announced that it anticipates reopening the New Britannia gold mine at Snow Lake, estimated by the company to produce 423,000 ounces of gold per year over six years. The mine is scheduled to start production in early 2011 and to reach full production by the end of 2011.

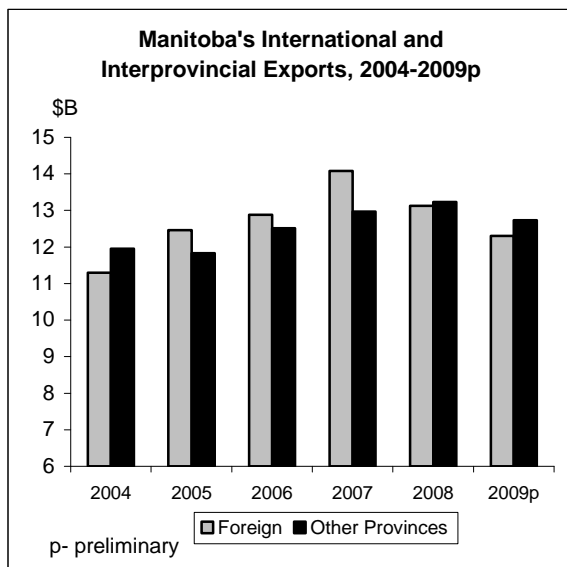
HudBay Minerals Inc. has announced that ongoing development at Flin Flon will extend base metal operations there until 2016. The company has also announced that it expects to commence production at its Lalor Lake copper, zinc and gold mine in 2012, reaching full production by 2014. Vale Canada Inc. announced that it will invest approximately \$1 billion in Manitoba mineral development over the next several years, but also announced it intends to phase out smelting and refining activities in Thompson by 2015.

Manitoba’s foreign exports have declined in 2010. Total merchandise exports are down 8.5% through October with exports to the U.S. down 11.1% and non-U.S. exports down

3.1%. While exports to China declined slightly this year, exports to other major markets, including Mexico, Japan, Hong Kong and South Korea, have increased.

Manitoba is less dependent on the U.S. market than Canada overall. About two-thirds of Manitoba's foreign exports are destined for the U.S. market compared to about three-quarters of exports nationally.

Among sectors, manufacturing and agriculture exports are down 8% and 13% respectively. These two sectors account for almost 90% of Manitoba foreign exports this year. Among other export categories, oil exports are down 18% while the value of electric power exports has increased by 9%.



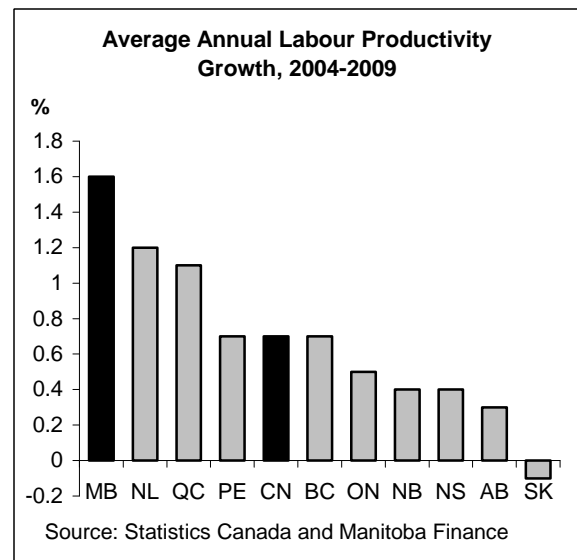
Manitoba is also unique among provinces with exports from the province split almost evenly between foreign markets and other Canadian provinces. Typically, Canadian provinces ship less than 40% of their exports to other provinces. Consequently, not only are Manitoba's export more diversified than other provinces, Manitoba's economic growth is more aligned with the overall national growth than with foreign markets.

Manitoba's economy has benefitted from strong business investment growth over the past several years. Over the last five years, Statistics Canada estimates that real business investment

has increased by over 40%, the second strongest increase in real investment among provinces and over double the national increase in the same period.

The large increase in business investment has contributed to the strong increase in labour productivity in the province.

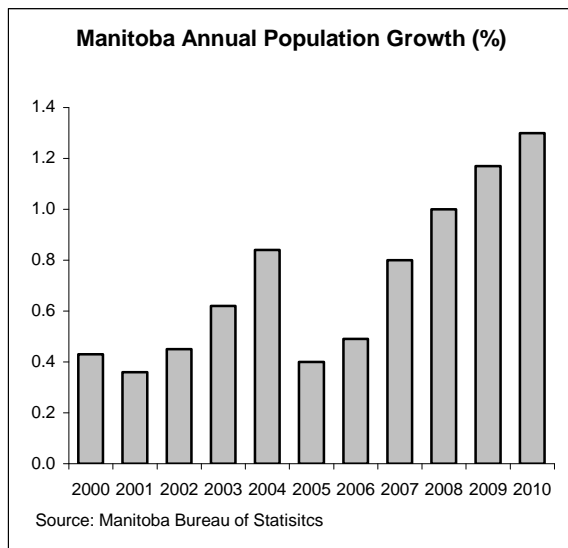
Over the last five years, Manitoba's growth in labour productivity has been strongest among provinces and more than twice the national increase. This increase in productivity improves the competitiveness of Manitoba businesses and supports a healthy rebound in production as national and international markets recover.



Much of the relative strength of the provincial economy over the past several years is due to buoyant population growth. Population increased by 1.3% in 2010, the fourth highest rate of population growth among provinces. The increase of almost 16,000 persons was the largest increase in almost 40 years.

Manitoba's population growth has benefitted from significant international immigration, with over 14,000 immigrants arriving in the past year. Most of the immigrants to Manitoba were admitted under the provincial nominee program, which facilitates immigration to Manitoba by foreign workers with the skills, education and work experience needed to make an immediate economic contribution and

to establish themselves successfully as permanent residents in Canada.



ECONOMIC OUTLOOK

In 2009, Statistics Canada estimates that all provincial economies except Manitoba contracted. As the national and global economies emerge from recession, forecasters project that Canada and most provincial economies will post growth rates below pre-recession averages in 2010 and 2011.

According to Manitoba Finance’s survey of independent economic forecasters, Manitoba’s

real GDP is forecast to grow by 2.4% in 2010, below the projected national increase of 3.1%. In 2011, Manitoba’s economy is forecast to grow by 2.6%, slightly above the projected national increase of 2.4%.

Nominal GDP is projected to increase by 5.1% in 2010, slightly below the national projected increase, and by 4.6% next year, equal to the national average forecast increase.

The recovery in employment in Canada is forecast to be relatively slow. The private sector survey shows Canadian employment in 2010 will grow by 1.7% and by 1.6% in 2011. Manitoba’s employment is forecast to increase by 2.0% in 2010 and 1.6% in 2011. Manitoba’s employment this year will post one of the strongest increases among provinces.

Moderate employment growth in 2010 and 2011 will result in continued relatively high unemployment rates in all provinces in 2011. Manitoba’s unemployment rate is expected to decline to 5.3% while the national unemployment rate decreases to 7.8%.

With continued weak overall demand conditions, consumer price inflation is expected to average only 2.0% over 2011 and 2012.

Manitoba Outlook at a Glance

(percent change unless noted)

	<u>2009</u>	<u>2010f</u>	<u>2011f</u>	<u>2012f</u>
Gross Domestic Product				
Real	0.0	2.4	2.6	2.7
Nominal	-0.1	5.1	4.6	4.7
Employment	0.0	2.0	1.6	1.6
Unemployment Rate (%)	5.2	5.4	5.3	5.1
Consumer Price Index	0.6	0.9	1.8	2.1
Population	1.2	1.3	1.3	1.2

f = forecast

Sources: Statistics Canada (2009) and Manitoba Finance Survey of Economic Forecasts (2010-2012)

Manitoba Economic Statistics

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (ytd)</u>	<u>Canada</u>	
	(% Change)				<u>2010 (ytd)</u>	
Population						
July 1st estimates	0.8	1.0	1.2	1.3	1.2	(July)
Gross Domestic Product						
Real	2.7	1.9	0.0	2.4 f	3.1	(annual)
Nominal	8.3	4.3	(0.1)	5.1 f	6.1	(annual)
Sectors						
Farm Cash Receipts	17.8	10.5	1.7	(1.4)	(3.2)	(Sept)
Crops	72.3	25.8	4.6	(4.1)	(8.8)	(Sept)
Livestock	(2.9)	(2.7)	(4.2)	3.2	4.7	(Sept)
Manufacturing	8.9	1.2	(10.7)	(4.9)	9.9	(Sept)
Mineral Production	17.8	(18.1)	(22.7)	na	na	
Value of Building Permits	7.3	10.6	(4.6)	14.3	23.6	(Oct)
Housing Starts All Areas	14.1	(3.5)	(24.6)	45.4	39.5	(Sept)
Retail Trade	8.9	6.9	(0.4)	6.3	5.2	(Sept)
New Car Sales	2.6	2.0	(8.4)	4.0	7.2	(Sept)
Foreign Merchandise Exports						
Total	19.6	6.4	(18.3)	(8.5)	11.0	(Oct)
USA	8.8	6.7	(19.7)	(11.1)	12.1	(Oct)
Labour Market						
Labour Force	1.7	1.5	1.1	2.1	1.3	(Nov)
Unemployment Rate (%)	4.4	4.2	5.2	5.3	8.0	(Nov)
Employment	1.6	1.7	0.0	2.0	1.6	(Nov)
Average Weekly Earnings	5.9	2.7	2.8	1.5	3.4	(Sept)
Consumer Price Index						
(2002=100)	2.0	2.3	0.6	0.8	1.7	(Oct)

(ytd) - year to date

(f) Data for 2007 to 2009 are from Statistics Canada. Data for 2010 are based on the Survey of Economic Forecasters.