

Budget Paper A

**THE
ECONOMY**

THE ECONOMY

Contents

THE CANADIAN ECONOMY	1
THE MANITOBA ECONOMY	3
Manufacturing.....	6
Agriculture	8
Minerals	11
Electricity Generation	13
Housing	15
Retail Trade.....	16
Tourism.....	17
Labour Markets	18
Investment	21
Foreign Markets.....	25
Manitoba Foreign Exports	27
Population	28
HIGHER INCOMES	30
MANITOBA OUTLOOK	31
THE MANITOBA ECONOMY: STRENGTH IN DIVERSITY	32
MANITOBA ECONOMIC STATISTICS, 2003 TO 2007	36

■ THE CANADIAN ECONOMY

The Canadian economy grew 2.7% in real terms in 2007, down slightly from 2.8% growth in 2006 (see Chart 1). Nominal gross domestic product (GDP) increased by 5.9%, substantially higher than the 5.2% increase posted in 2006.

Last year saw the onset of significant instability in international credit markets caused by uncertainty regarding sub-prime mortgage-backed securities. These assets principally originated in the United States but were held by investors in several countries. The tightening of international credit conditions related to defaults on these obligations, combined with the continued decline in the U.S. housing sector, exerted a considerable drag on U.S. economic growth last year. By the fourth quarter of 2007, U.S. real GDP advanced at an annualized rate of 0.6%. Overall, the U.S. economy grew by 2.2% last year, the smallest increase in five years.

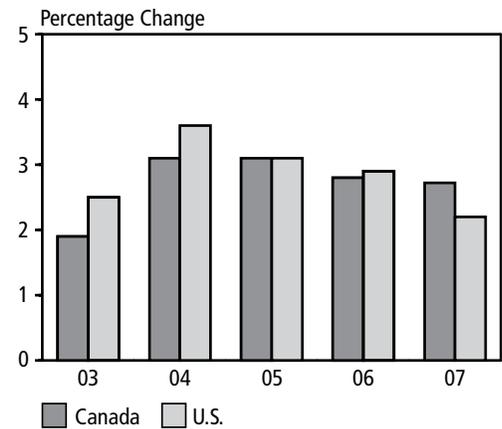
In Canada, strong prices for primary commodity exports, generalized U.S. dollar weakness and widening interest rate spreads versus the U.S. combined to push up the value of the Canadian dollar. The Canadian dollar achieved parity with the U.S. dollar on September 20, 2007, for the first time in over 30 years. Subsequently, the Canadian dollar rose to a modern-day high of US\$1.09 on November 7 before declining to average approximately US\$1.01 through the remainder of the year (see Chart 2). Through the first two months of 2008, it has averaged US\$1.00. There is no consensus among private forecasters as to whether the Canadian dollar will strengthen or weaken against the U.S. dollar through the remainder of 2008, but no one is predicting a return to exchange rate values seen prior to 2006.

The combination of the stronger Canadian currency and the weakening U.S. economy has had a negative impact on exports to the United States. Merchandise exports to the United States fell 1.4% in 2007, although total merchandise exports rose 1.8% due to relatively good growth in exports to non-U.S. markets. The U.S. is Canada's largest trading partner, accounting for almost 80% of all exports in 2007.

U.S.-dollar denominated prices for most primary commodities produced in Canada continued to increase in 2007, buoyed by strong global demand, especially from China and India. Prices for many field crops, oil and gas, wood pulp and most metals advanced last year, building on a string of strong price increases which began in 2003 (see Chart 3). Gold and wheat achieved record-high prices in early 2008, and prices for most commodities are expected to remain high this year as long as firm global demand conditions persist.

Chart 1

Real Gross Domestic Product At Market Prices



Sources: Statistics Canada
U.S. Bureau of Economic Analysis

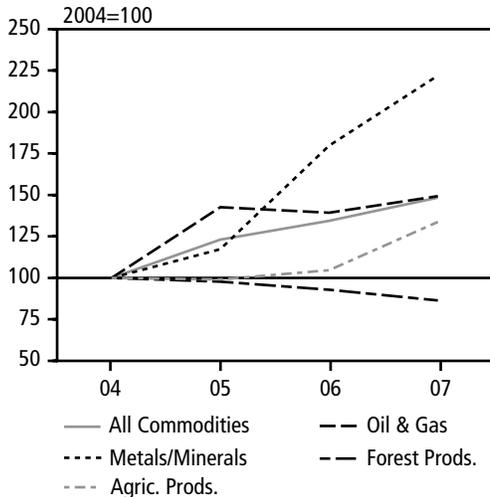
Chart 2

Canada-U.S. Exchange Rate



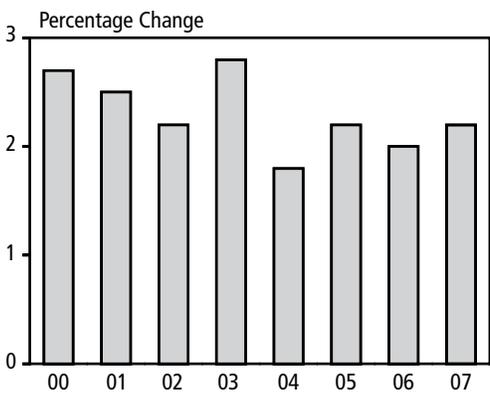
Source: Bank of Canada

Chart 3
US\$ Commodity Price Index



Source: BMO Capital Markets
Commodity Price Index

Chart 4
Canada Consumer Price Index



Source: Statistics Canada

Despite increases in many primary commodity prices, overall inflation remained relatively contained in Canada, helped by the steady increase of the Canadian dollar which contained import prices for both consumer and industrial goods. In 2007, Consumer Price Index (CPI) inflation was 2.2%, marginally higher than the 2.0% rate posted in 2006 (see Chart 4). This rate of inflation was near the middle of the 1-3% inflation target band established by the Bank of Canada.

As noted, the Bank of Canada maintained relatively high interest rates in 2007, continuing the monetary tightening that began in 2004. This changed in December 2007 when the Bank responded to global financial market difficulties with a 25-basis-point (bp) rate reduction. The Bank delivered a further 25-bp rate reduction in January 2008 and another reduction of 50 bps on March 4, 2008, the largest single move since the rate cut in November 2001.

While the Bank of Canada eased rates late in 2007 and early 2008, the U.S. Federal Reserve responded to financial instability and the threat of economic recession with much more aggressive rate cuts. Between September 18, 2007 and March 18, 2008, the U.S. Federal Reserve chopped the Fed Funds rate by 300 bps (see Chart 5).

The modest monetary policy easing in Canada combined with an aggressive stance in the U.S. has widened the short-term Canada-U.S. interest rate spread (see Chart 6). The wider spread, with Canada maintaining a higher interest rate, played an important role in the appreciation of the Canadian dollar in the latter half of 2007 and in 2008.

Canada's labour market continued a robust performance in 2007 as employment rose 2.3% and the labour force grew 2.0%, the strongest increases since 2003. Canada's annual unemployment rate fell for the fifth consecutive year to 6.0%, the lowest annual rate since 1974.

While most sectors of the economy posted healthy increases in employment, difficulties faced in Canadian manufacturing prompted another year of job reductions in that industry. The strengthening Canadian dollar, higher energy prices and a weakening U.S. market combined to limit manufacturing sales growth to 0.4%. In this environment, manufacturing employment contracted 3.4%, the third consecutive annual decline. Since 2004, Canadian manufacturing employment has declined by almost 250,000 jobs. Despite the malaise in the overall sector, manufactured products related to primary commodities such as petroleum products and primary metals are very strong, with increased sales to non-U.S. destinations.

Canada's housing market remained relatively steady in 2007, unlike the U.S., with a small increase in housing starts and moderate increases in house prices

throughout the country. Consumer confidence was also reflected in strong retail sales, which increased 5.8% last year.

Private economic forecasters surveyed by Manitoba Finance project slower employment growth in 2008 and 2009 due to a general weakness in the Canadian economic outlook. Employment growth is projected at 1.4% in 2008, the weakest growth since 2001. For 2009, forecasters expect average employment growth of 1.1%. The national unemployment rate is expected to increase to 6.1% in 2008 and 6.2% in 2009, moderately higher than 2007 but still very low relative to unemployment rates prevailing over the past decade.

The International Monetary Fund (IMF) projects that world economic growth will slow from almost 5.0% in 2007 to 3.7% in 2008. Most of the slower growth will occur because of weakness in advanced economies, including the United States, Europe and Japan. These countries are forecast to post real GDP growth of about 1.5%. On the other hand, Asia, particularly China and India, will continue to post exceptionally robust growth, according to the IMF.

Manitoba Finance's survey projects economic growth in Canada to increase by 1.9% in 2008 and a further 2.4% in 2009. With the expectation of GDP inflation easing in the next two years, nominal GDP is expected to slow in 2008 to 4.2% and 4.3% in 2009.

Considerable risks remain for the Canadian economy in 2008. The most significant of these is the risk of a major economic slowdown, or a possible recession, in the United States. Economic indicators released in early 2008 confirm that the U.S. economy is indeed slowing. Serious economic weakness in the U.S. will have a negative impact on the Canadian economy as a weaker export sector will spill over into the non-export components of the Canadian economy, such as consumption, investment and government fiscal performance.

■ THE MANITOBA ECONOMY

Preliminary estimates show that Manitoba's economy grew by 3.0% in 2007, following a 3.3% gain in 2006 (see Chart 7). Contrasting with the weakness in the U.S. and central Canada, Manitoba's economic performance in the last two years has been exceptionally strong. Domestic demand from consumers, businesses and government, combined with healthy interprovincial and foreign exports, buoyed Manitoba's growth.

After adjusting for inflation, consumer spending increased by 3.7% in 2007, an improvement from 3.3% growth in 2006. Real business investment spending jumped 14.1%, the second consecutive year of double-digit growth. Real exports increased by 3.2% last year compared to 0.9% for

Chart 5
Canada and U.S. Interest Rates

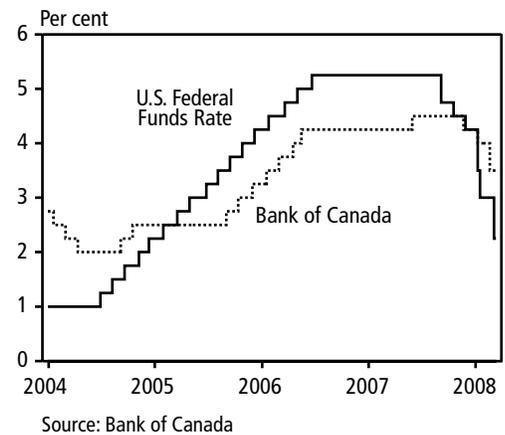
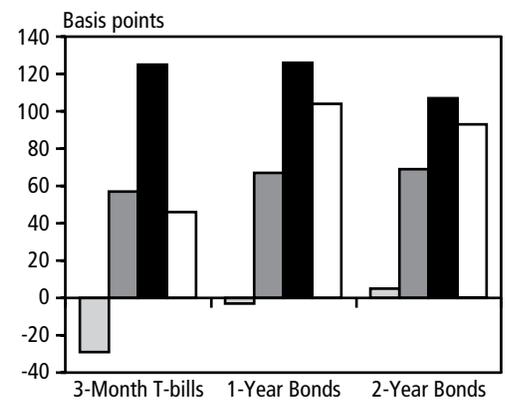


Chart 6
Interest Rate Spreads, Canada less U.S.



Spreads are in basis points at beginning of month, as of:

Aug. 07 Jan. 08 Feb. 08 Apr. 08

Note: If spread is positive, then Canadian yield exceeds U.S. yield.

Source: BMO Capital Markets

Chart 7
Manitoba Real Gross Domestic Product

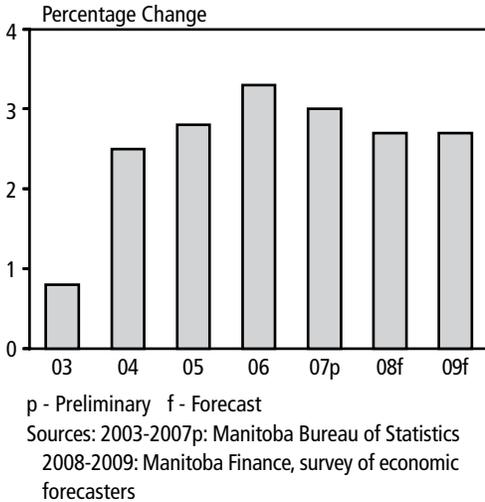
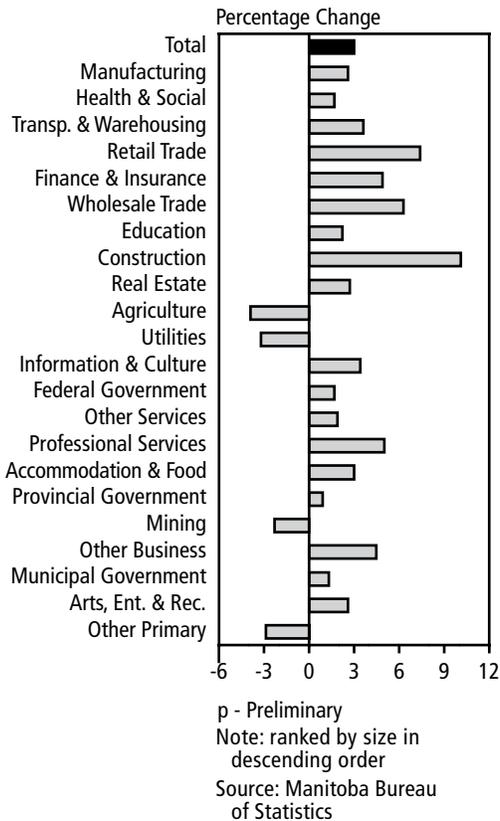


Chart 8
Manitoba Real Gross Domestic Product at Basic Prices by Industry, 2007p



Canada. Increased demand for consumer goods and business machinery and equipment drove up real international imports by 8.2%, while imports from other provinces increased by 3.2%.

In respect of performance by individual industrial sectors, the construction industry output was the strongest overall in 2007, up by 10.1% (see Chart 8). Manufacturing also supported growth in the goods-producing sector, expanding by 2.6%. However, hampered by weather conditions, both the agriculture and utility sectors contracted in 2007. A drop in the volume of nickel production contributed to a 2.3% reduction in real mineral output. Retail and wholesale trade were the strongest service-producing sectors in 2007, expanding by 7.4% and 6.3%, respectively.

Population growth is an important factor underlying the province's economic performance. Through the Provincial Nominee Program, Manitoba has been successful in increasing population growth to levels not experienced since the 1980s. In 2007, the net loss through interprovincial migration decreased to 1,390 persons, the lowest level in 23 years. Growing employment opportunities and a relatively low cost of living have strengthened Manitoba's interprovincial migration performance.

Solid population growth and a surge of "echo boom" homebuyers entering the market have supported housing demand. To meet growing demand, new home construction has grown considerably and resale activity has been strong with many homes selling above the initial asking price. Manitoba housing prices remained affordable due to reasonable interest rates and rising Manitoba incomes. According to the latest Housing Affordability Index, published by RBC Economics, Manitoba is ranked as having the most affordable housing in Canada in three out of four housing categories that RBC surveys.

Corporate and personal income also grew at a substantial level in the last year. Two factors contributed to strong profit margins: high commodity prices, which increased margins; and a strong Canadian dollar, which lowered import costs.

To enhance profitability and productivity, Manitoba businesses have increased their capital spending on machinery and equipment and new technologies. The investment intentions survey from Statistics Canada suggests Manitoba will lead all provinces in investment spending growth for the second consecutive year in 2008. Capital spending is expected to increase in most sectors, but will be especially higher in transportation, utilities, construction and other services.

Employment growth has progressively improved over the last three years, increasing by 1.6% in 2007, up from 1.2% and 0.6% in 2006 and 2005, respectively. Manitoba's economy created 9,500 additional jobs in 2007,

Manitoba Real Gross Domestic Product, at Basic Prices by Industry, 2006 and 2007p

(Millions of Chained 2002 Dollars)

	2006	2007p	Percentage Change
Goods	10,229	10,388	1.6
Agriculture	1,691	1,626	-3.9
Mining	775	757	-2.3
Other Primary	94	91	-2.9
Manufacturing	4,564	4,684	2.6
Construction	1,689	1,860	10.1
Utilities	1,416	1,370	-3.2
Services	26,408	27,352	3.6
Transportation & Warehousing	2,500	2,589	3.6
Information & Culture	1,211	1,252	3.4
Wholesale Trade	2,065	2,195	6.3
Retail Trade	2,402	2,578	7.4
Finance & Insurance	2,144	2,249	4.9
Real Estate	1,671	1,717	2.7
Imputed Rent	3,083	3,183	3.2
Professional Services	899	944	5.0
Other Business Services	702	733	4.5
Federal Government	1,207	1,228	1.7
Provincial Government	846	854	0.9
Municipal Government	503	509	1.3
Education Services	1,911	1,952	2.2
Health & Social Assistance	3,029	3,080	1.7
Arts, Entertainment & Recreational	345	354	2.6
Accommodation & Food	835	860	3.0
Other Services	1,054	1,074	1.9
Real GDP at Basic Prices	36,637	37,740	3.0

p – Preliminary

Source: Manitoba Bureau of Statistics

Totals may not add due to rounding and chained.

Percentage change based on unrounded data.

the best growth since 2002. The increased level of job creation encouraged greater participation in the labour market. Last year, almost 70% of working-age Manitobans were either working or looking for work. This is the third-highest rate among provinces. The tight labour market conditions held the unemployment rate at 4.4% in 2007, the fourth-lowest rate among provinces.

Chart 9
Consumer Price Index by Province, 2002 to 2007

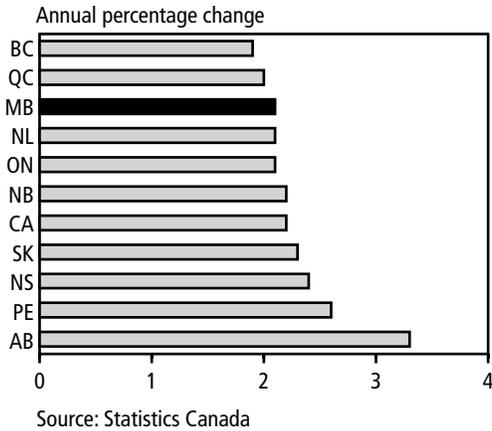
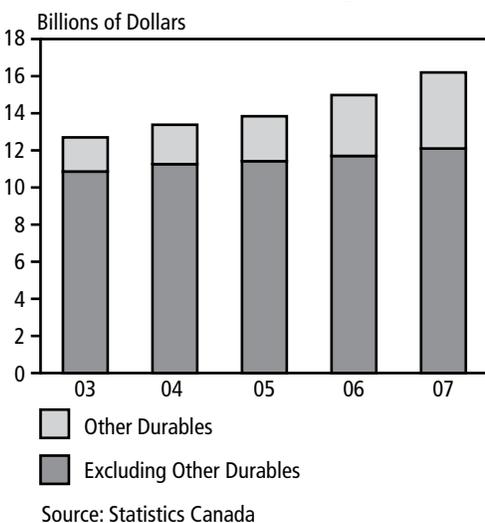


Chart 10
Manitoba Manufacturing Sales



Last year, on the strength of employment and farm income, personal income increased by 5.1%, the best increase in seven years. This follows a 4.9% gain in 2006. Income for farmers rose 27.6% in 2007. The outlook for income in 2008 remains firm, with the Conference Board of Canada projecting 4.8% growth.

Consumer price increases have remained low and stable at a 2.1% annual average growth in the last five years, tied for the third lowest among provinces (see Chart 9). In 2007, the increase in consumer prices was due in large part to strong growth in shelter costs, alcohol and tobacco, and food costs. Reflecting the strength of the Canadian dollar, the price for clothing and footwear deflated by 0.4% and household operations and furnishings increased by 0.2%.

Last year was exceptional for merchandise exports. With growth in the U.S. slowing, Manitoba's nominal exports were buoyed by shipments to non-U.S. destinations. Non-U.S. exports were up 36.7% in 2007, while U.S. exports were up 6.0%. Since the U.S. accounts for over 70% of international exports, overall exports increased by 13.2%, the third-best growth among provinces.

Based on Manitoba Finance's survey of private sector economic forecasters, real GDP is expected to increase by 2.7% in both 2008 and 2009, above the Canadian average in both years. The Conference Board of Canada forecast, included in the survey, predicts Manitoba will lead all provinces in 2008 with 3.7% growth. The survey projects employment growth will be unchanged at 1.6% in 2008, slightly above Canada, and 1.2% in 2009. Consistent with forecast economic activity, consumer price increases are expected to moderate to 1.7% in 2008 and rise to 2.1% in 2009.

Manufacturing

The manufacturing sector is Manitoba's largest industry, generating over 12% of total GDP and providing almost 12% of total employment and wages and salaries in the province. Manitoba has the third-highest manufacturing employment share among provinces, following Ontario and Quebec. Last year, employees in manufacturing earned a record \$2.6 billion in wages and salaries.

The manufacturing sector in Canada faces a number of challenges: the speed and magnitude of the Canadian dollar's appreciation, increased global competition, tighter credit conditions, slower U.S. demand for Canadian goods, and skilled labour availability. Despite these pressures, Manitoba's manufacturing sales performance have matched or exceeded the national growth in each of the past seven years. During this period, sales of

manufactured goods rose on average by 5.1% annually while national sales increased by 1.3%. Similarly, Manitoba factories increased their employment by a total of 1.1% over the last seven years compared to a 9.1% decrease in Canadian factories. In 2007, manufacturing employment increased by 4,000, up 6.0% to a record 70,600 workers.

Sales of manufactured goods rose 8.1% in 2007, second best in Canada and well above the national rate of 0.4%. Manufacturers in the province are now shipping, on average, \$1.3 billion worth of products per month. The industry set a new record in sales in 2007 at \$16.2 billion (see Chart 10).

The increase in primary commodity prices has significantly contributed to the strong performance of Manitoba's manufacturing sector. Since Manitoba is a key player in refined and smelted metal production, the increase in metal prices boosted sales of "other durable" manufactured goods (see Chart 11). Since 2002, the increase in metal prices has contributed to a 158.3% increase in sales of other durable manufacturing products, while shipments excluding these products expanded 18.1%.

The increase in fuel prices over the last few years has stimulated the demand for both fuel-efficient transit buses and aerospace products. Recently, Winnipeg's New Flyer Industries, a manufacturer of heavy-duty transit vehicles, announced that it has received orders for up to 1,253 buses valued at over US\$603 million. These orders are for a variety of vehicles, including 35-, 40- and 60-foot buses and diesel, hybrid-electric, and compressed natural gas propulsion systems. Combined with previous orders, the backlog of unit sales at New Flyer Industries has increased 41% over the past year, while the value of these orders has increased 69% to US\$3.05 billion.

Similarly, Boeing Canada Technology expanded its Winnipeg operations by adding a new aircraft parts assembly line to produce advanced components for the new fuel efficient Boeing 787 Dreamliner. Boeing's Winnipeg facility supplies landing gear doors, wing-to-body fairings and other parts for the new plane made from carbon composites that reduce the weight of the plane.

These two companies contributed to the 18.4% increase in sales of transportation equipment in 2007 (see Chart 12), which follows solid gains in the sector in the previous two years.

The province-wide increase in residential and non-residential construction activity helped lift sales of non-metallic mineral products, including cement and concrete, by 10.8% and fabricated metal products by 8.9% in 2007. However, the strong dollar and competition from abroad dampened shipments of furniture and clothing products from the province. The recession in U.S. housing has also led to a contraction in sales of wood products which includes windows and doors.

Chart 11
Manitoba Manufacturing Sales, Other Durables and Excluding Other Durables

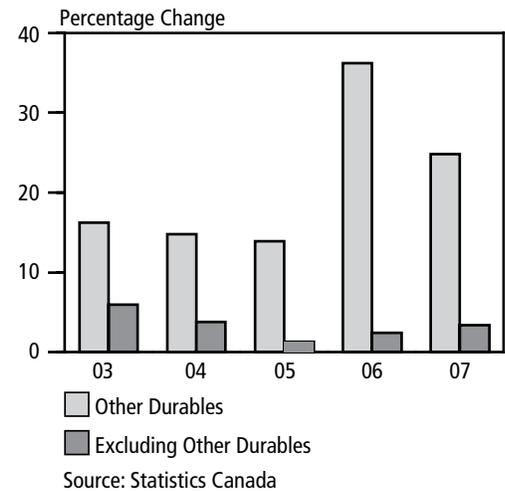
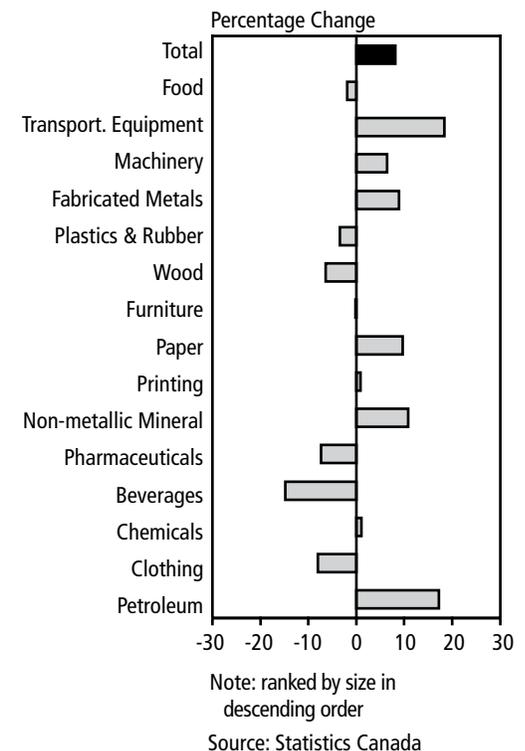


Chart 12
Manitoba Manufacturing Shipments by Industry, 2007



“...we observed a positive turnaround in [Manitoba’s] agricultural sector, due to the soaring prices of wheat, canola and barley on world markets.”

**Laurentian Bank Securities
The Provincial Monitor
January 2008**

Buoyed by higher profits and lower import costs, manufacturing capital investment increased by 28.9% and 12.0% in 2006 and 2007, respectively. These investments boosted productivity, innovation and adoption of state-of-the-art technologies. Investments in “lean” manufacturing and leading technologies, such as Manitoba’s Composite Innovation Centre, have helped Manitoba manufacturers remain competitive.

Capital spending is supported in the province by several incentives including the enhanced manufacturing investment and new green energy tax credits, and special short-term federal support that allows manufacturers to write off machinery and equipment at 50% per year.

The Conference Board of Canada’s long-term provincial economic forecast cites capital investment as being a factor that will fuel growth in several Manitoba industries, including agri-food, aerospace and transportation equipment. The aerospace industry is noted as growing into one of the largest in the nation and promises to be an even more significant longer-term force within Manitoba’s manufacturing sector.

Agriculture

Agriculture is a major contributor to the Manitoba economy. Crop and livestock enterprises produce a variety of commodities and have strong linkages to food manufacturing, transportation and warehousing, retail and wholesale trade, as well as finance, insurance and real estate.

The agriculture sector is evenly distributed between livestock and crop production. Over the last 10 years, cash receipts from both livestock and crop operations averaged \$1.6 billion.

In 2007, the performance of these two industries was varied. Crop farmers in the province produced a below-average harvest, partly because of uneven weather conditions. However, with high prices and marketing of carry-over stocks from the 2006 harvest, cash receipts for crops were solid. Falling prices, the strong dollar and rising feed costs have dampened income growth for Manitoba’s livestock industry. Cash receipts fell for cattle producers in 2007 after two solid years. Hog producers earned lower receipts for the second consecutive year.

Planting conditions varied in 2007, with excessive moisture levels reported in the spring followed by unseasonably hot and dry conditions prevailing through mid-summer. At harvest, the conditions were generally cool and wet, slowing harvest and reducing yields. Relative to the exceptionally high volume of crop production in 2006, Manitoba’s wheat harvest was down 15.1% and canola was down 6.1% in the 2007 season. Corn production, on the other

hand, increased by 30%, while oats and barley rose by 24.5% and 15.5%, respectively.

With crop prices rallying in late 2006, many farmers stored their 2006 bumper crop on hopes of improved prices in 2007. Their expectations paid off as marketings increased in 2007 and receipts from grain and oilseed sales jumped 87.3% to a record \$1.7 billion, 48% above the 10-year historical average. Consequently, despite lower yields in 2007, cash receipts from canola almost doubled and rose 74.2% for wheat (see Chart 13).

The strong grain and oilseed prices are in large part supported by factors that are temporary, such as low stocks and adverse weather conditions. Last year, several major grain-producing regions experienced poor growing conditions including areas of Canada, the U.S., Australia and Ukraine. At the same time, food demand from China and India continued to grow as personal incomes increased and diets were upgraded. The tight wheat market has lowered the global stock-to-use ratio to the lowest level in modern history. In the U.S., wheat supplies are expected to fall to a 60-year low this spring.

After two solid years, excess supply and flat demand for meat and meat products in Canada and the U.S. dampened prices and profitability for livestock producers in 2007. The weak U.S. currency also lowered receipts for farmers, since livestock exports are priced in U.S. dollars. Livestock production costs rose as farmers paid more for feed. Feed barley costs, for example, were up by 60% in the year ending September 2007. Corn prices were up by more than 50%.

Given these circumstances, cattle producers reduced the size of their cattle and calf herds for the second consecutive year. In 2007, farmers reduced their herds by 1.5% after a 7.7% reduction in 2006. Much of the decline in the number of cattle held on farms was on feeder lots.

A positive note for cattle producers was the complete elimination of the U.S. trade restriction on Canadian older cattle, bison and related meat products. Effective November 19, 2007, the U.S. border re-opened for all meat products and for any live cattle born after March 1999. The border re-opening comes nearly five years after the discovery of bovine spongiform encephalopathy (BSE) in Alberta. Removing the trade barrier resulted in a 62% increase in cattle exports from Manitoba. The 2007 level of exports to the U.S. is above the pre-closure average annual export level. Despite the sharp increase in exports, lower prices reduced farm cash receipts for cattle and calf producers by 8.3%, the first decline after two years of growth.

Hog producers face the same challenges as cattle producers: a strong dollar, high feed costs and low prices. Hog production continued to expand in 2007 but farmers cut back on inventories. By the end of 2007, hog inventories were

Chart 13
Manitoba Farm Cash Receipts
by Product, 2007 and 2006

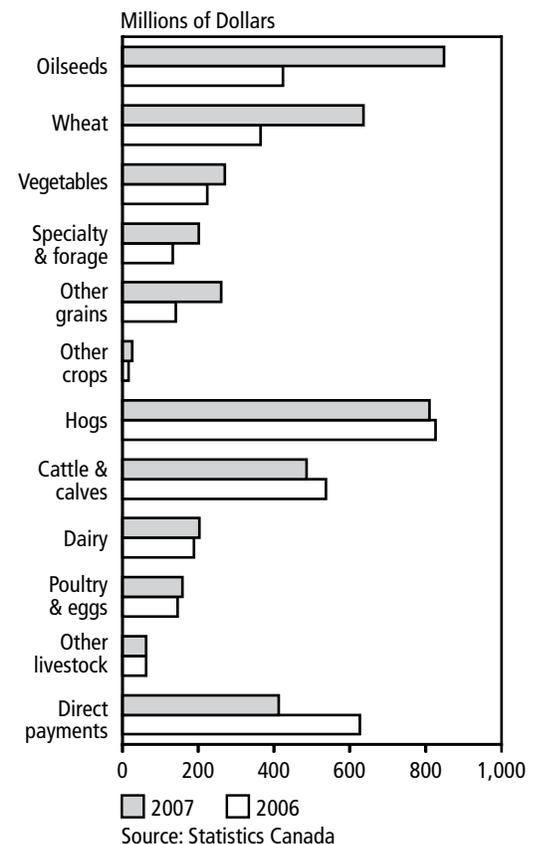
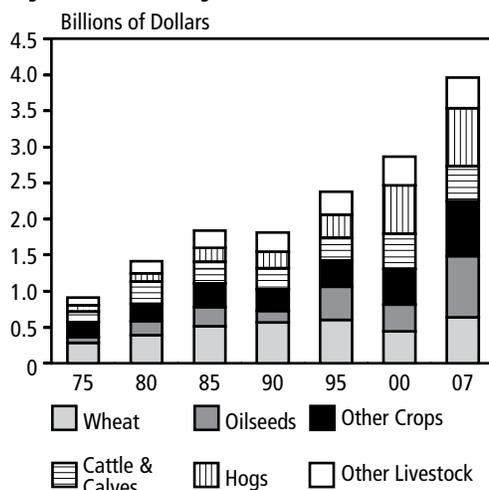


Chart 14

Manitoba Market Receipts by Commodity



reduced by 2.0%, or 60,000 pigs, to total 2.9 million animals. The hog price index, which tracks the price farmers receive, fell 4.4% in 2007 following a 12.9% decline in 2006. Since 2004, the index is down 22.6%. In keeping with the lower prices, farm cash receipts from hog operations fell 1.8% in 2007 after a 13.7% drop in 2006.

As feed costs continue to rise, the export market for younger hogs remains relatively attractive to Manitoba hog producers. In 2007, Manitoba exported 6.1 million hogs, up 12.4% from 2006. In the last three years, hog export growth has averaged 10.2% annually. Consistent with soft domestic demand for pork, lower prices paid to producers and higher feed costs, domestic slaughter has continued to decline after reaching a record high in 2004. Last year, hog slaughter in Manitoba declined by 9.4%.

Global agriculture is undergoing two very important structural changes that may keep crop prices above historical averages: first, the increased demand for crops for biofuel production and, second, farmer income support policy reforms, especially in Europe, that encourage a reduction in food production.

Biofuel production is supported by climate change initiatives designed to reduce global greenhouse gas emissions and lower dependence on non-renewable fossil fuels. In the U.S., the Energy Policy Act is ensuring that gasoline sold in the United States contains a minimum volume of renewable fuel. From the current estimate of about 4.8 billion gallons of ethanol blended into gasoline, the goal is to increase the volume of renewable fuel required to be blended to 7.5 billion gallons by 2012. The European Union is also promoting the use of biofuel as an alternative energy source by setting a 10% ethanol blend target for transport fuel in each member state by 2020.

In Canada, the federal government has mandated a 5% ethanol blend in gasoline by 2010 and a 2% biodiesel blend in on-road diesel and heating oil by 2012. In Manitoba, where the first Canadian ethanol production facility was built, the mandate requires a pooled average of 8.5% ethanol in the total volume of gasoline sold in the province. The mandate in Manitoba started on January 1, 2008 with a 5% ethanol requirement, ramped up to 8.5% on April 1, 2008.

As ethanol and biodiesel production increases, the increased need for feedstock will continue to support grain and oilseed prices and, through higher feed costs, the prices for livestock products. The current rally in crop prices began in 2006 as global ethanol production increased by 11.0% and Canadian ethanol production jumped over 150%. The Canadian farm product price index for all agricultural commodities rose by 0.5% in 2006 and another 8.4% in 2007, following three consecutive years of declines. Crop prices continue to be strong through the first quarter of 2008.

The rapid increase in crop prices does pose a near-term risk for the inflation outlook. Low global grain and oilseed supply, combined with growing demand, especially from China and India, are pulling up food prices globally. Canada has been somewhat insulated from this pressure due to the rising currency that lowers imported food costs.

Minerals

Minerals are a key contributor to the Manitoba economy and are the province's second-largest primary industry. The minerals sector employs 6,400 people, most of whom reside in northern Manitoba, and offers among the highest wages.

Strong global demand for the province's commodities is driving the industry. The value of production in the minerals sector, including metals, non-metallic minerals and oil, totaled \$3.1 billion in 2007, a record level and up almost three-fold compared to 2003. The value of metal production soared over the last two years, increasing by 72.8% in 2006 and 19.7% in 2007, to a record \$2.4 billion (see Chart 15).

Manitoba's principal mineral resources are nickel, oil, copper, zinc and gold. All five commodities have recently posted prices that were significantly greater than their historical averages. High prices have encouraged much more investment in existing mining facilities and new mineral exploration. Manitoba's burgeoning oil industry is also experiencing increased production in response to higher prices and greater investment.

Global nickel inventories ended the year at their highest level in eight years, with a dramatic increase in the second half of 2007. World stocks rose from a low of 3,000 mega-tonnes (Mt) in early February 2007 to almost 48,000 Mt by the end of the year. Nickel prices fell in response, but were still historically high despite the considerable build-up of stocks. The average price of 2007 was C\$18.29 per pound, up 46.7% over the average price of 2006.

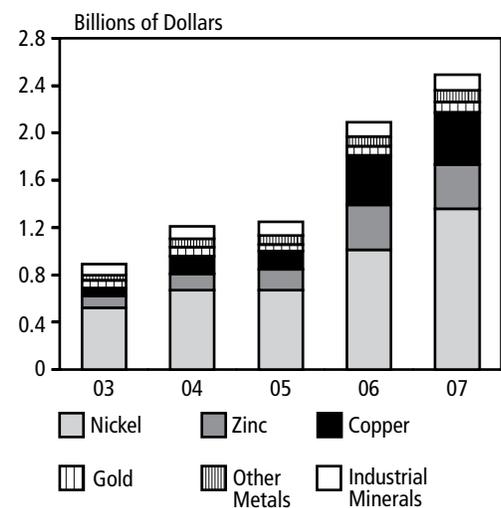
Manitoba produces approximately 14% of Canada's nickel, and nickel is the province's most valuable mineral. Manitoba production volumes of nickel have been steady in the previous five years, but fell 8.8% in 2007 to 33.6 Mt. Higher prices boosted the value of production to \$1.4 billion, a 34.2% increase on top of the 45.1% rise in 2006.

In 2007, global copper inventory dropped by half to about 102,000 Mt by July and rebounded to nearly 193,000 Mt by December 2007. Prices in 2007 generally mirrored the movement in the inventory level, increasing in the first half of the year and falling in the second half, but remained unchanged from 2006 on an annual average basis. Copper traded at C\$3.28 per pound in January 2007 and closed at C\$2.99 at the end of the year. Even with the price

“Manitoba’s mining sector is experiencing one of the highest increases in exploration growth in Canada. The province introduced a 10% mineral exploration tax credit in 2002 and features a popular assistance program, which have boosted mining investment in the province.”

Scotia Economics
Provincial Trends
February 2008

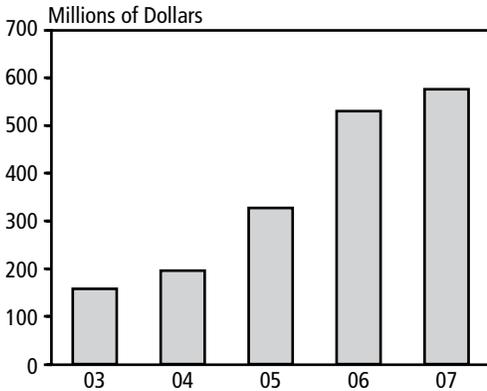
Chart 15
Manitoba Mineral Production



Note: excludes petroleum

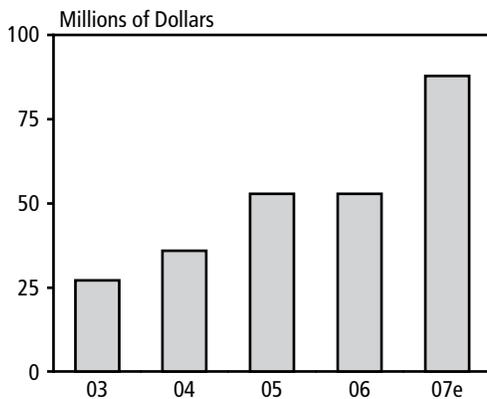
Source: Natural Resources Canada

Chart 16
Manitoba Petroleum Production



Source: Manitoba Science, Technology, Energy and Mines

Chart 17
Manitoba Mining Exploration



e - Estimate

Source: Natural Resources Canada

fluctuations, copper production remained lucrative compared to the historical average of C\$1.25 from 2000 to 2004. For February 2008, prices averaged C\$3.57.

Copper production in Manitoba increased slightly in 2007 after large gains in the previous year. Output was up 1.4% to 55.5 Mt after increasing 54.3% in 2006. The price increases over the last two years have led to extraordinary gains in the value of copper production for Manitoba. Production value in 2007 increased 4.5% from the previous year to \$436 million, after an elevated 173.4% gain in 2006.

Global stocks of zinc fell precipitously from 2005 to 2006 and have remained tight throughout 2007, despite a modest build-up in the fourth quarter. Nevertheless, prices declined steadily last year from a high of C\$2.25 per pound to C\$1.03 by the year's end, but zinc remained profitably above its historical price level and averaged C\$1.10 in February 2008.

Manitoba zinc production, which accounts for 18% of national production, was steady at 105.6 Mt after advancing modestly over the past few years. The value of zinc production decreased from 2006 by 1.3% to \$377 million in 2007, but is more than double any other previous year.

The price of gold averaged C\$745 per ounce in 2007, up 8.7% over 2006. Much of the increase occurred in the second half of 2007, with the spot price increasing by a fifth from the end of June to close December at C\$824. Used as a hedge against the U.S. dollar, gold continues to increase in 2008, averaging C\$923 per ounce in February 2008 and trading near C\$1,000 in March.

Elevated gold prices have invigorated exploration investment among several companies in Manitoba. Production in the province increased by 19.8% in 2006 and continued to rise, finishing 7.2% higher in 2007. Higher prices and production have increased the overall value of Manitoba gold production by 15.5%.

For the petroleum industry, the total number of drilled wells was strong at 324 in 2007, falling from a record 478 wells in 2006, but above the total in 2005. Manitoba oil production sustained a record level from 2006 with 1.2 million cubic metres of output, while oil prices increased to C\$72.65 per barrel, on an annual average basis, from C\$66.78 in 2006. Oil prices continue to achieve record highs this year. The value of production increased to \$576 million in 2007, up 8.7% over 2006 (see Chart 16). Investment was also strong at \$320 million in 2007, down from the record breaking \$400 million of 2006, but better than historical averages.

Higher prices, clear and consistent regulation of companies and fair application of policies over time were all factors in attracting higher levels of investment

in Manitoba's minerals industry last year. Manitoba mining investment is estimated at \$87.9 million in 2007, up two-thirds from the \$52.9 million spent in 2006 (see Chart 17). Exploration intentions are estimated to increase another one-third to \$117 million in 2008.

After increasing production and investing \$41 million in exploration last year, HudBay Minerals Inc. will spend another \$43 million on zinc and copper exploration in 2008, particularly in the Lalor Lake deposit in the Flin Flon Greenstone Belt. Lalor Lake has potential for a 3.9-billion-pound zinc deposit on a property close to its Snow Lake concentrator and existing infrastructure.

As evidenced by higher capital spending, mining firms are showing a strong commitment to Manitoba's productive deposits. Capital investment increased 11.6% in 2007 to a level that more than doubles the amount invested in 2004. According to a survey of investment intentions conducted by Statistics Canada, investment will increase by 4.6% to \$568 million in 2008 (see Chart 18).

In addition to rich mineral deposits, Manitoba offers a number of economic advantages that support the minerals sector including affordable land, at- or near-surface geological resources, a transparent land tenure system, a well-defined permitting and protected areas process, competitive business costs, skilled labour, high-quality transportation infrastructure, and reliable low-cost electricity.

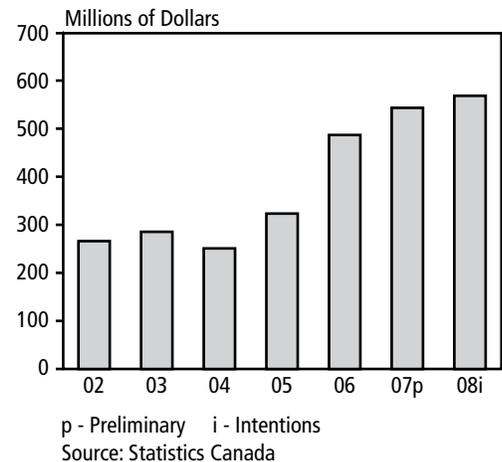
Electricity Generation

Manitoba has a strong commitment to develop renewable energy sources including new-generation hydro, geothermal, ethanol, bio-diesel, wind power and hydrogen.

Virtually all electricity produced in Manitoba is generated from water power, a renewable, clean source of energy. Manitoba Hydro, the province's largest utility, has 14 hydro-electric generating stations, primarily on the Winnipeg, Saskatchewan and Nelson Rivers. These stations have a capacity of approximately 5,000 megawatts (MW) (see table). Adding generating capacity from steam, combustion turbines and remote diesel capabilities, the total system capacity at Manitoba Hydro is about 5,470 MW. Manitoba also has 99 MW electricity generating capacity from wind.

Manitoba domestic electricity sales expanded 5.8% last year in line with economic and demographic growth. Revenues from domestic sales account for approximately 63% of total sales. In 2007, these revenues surpassed a record \$1 billion. Coming off two solid years and remaining well above average, export sales of electricity decreased by 12.7%, due to lower capacity from

Chart 18
Manitoba Mining
Capital Investment

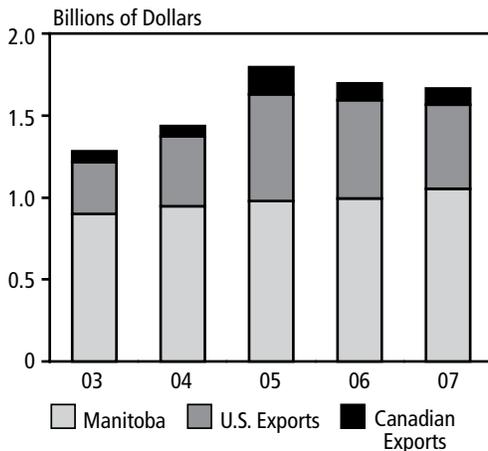


Manitoba Hydro Generating Stations

Station	MW
Limestone	1,340
Kettle	1,220
Long Spruce	1,010
Grand Rapids	479
Kelsey	223
Seven Sisters	165
Jenpeg	132
Great Falls	131
Pine Falls	88
Pointe du Bois	78
Slave Falls	67
McArthur Falls	55
Laurie River 1 & 2	10
Total Hydraulic Capacity	4,992

Source: Manitoba Hydro

Chart 19
Manitoba Hydro-Electricity Sales



Source: Manitoba Hydro

reduced water flows (see Chart 19). Sales to the U.S. decreased by 14.4%, while sales to Ontario and Saskatchewan fell 2.1%, although Manitoba Hydro's revenue through the end of fiscal 2007 was considerably better than in fiscal 2006.

The province's wind power strategy led to Manitoba's first wind farm development near St. Leon. This privately constructed wind farm sells electricity to Manitoba Hydro for distribution through its domestic and international network. The installation is 99 MW, comprising 63 wind turbines each with a 1.65 MW generating capacity.

Last March, Manitoba Hydro issued a Request for Proposals for the purchase of up to an additional 300 MW of wind-generated electricity. A 300-MW wind-farm would involve a capital investment in excess of \$600 million and generate enough electricity each year to satisfy the requirements of about 90,000 natural gas-heated houses. Ten proposals of the 84 submissions were selected for further consideration.

In order to meet growing domestic and export demand for electricity, Manitoba has several other projects under way or planned.

Construction has begun on the Wuskwatim generating station; a low-impact hydro-generating unit will be completed by 2012. The project involves establishing a 200-MW generation station at Taskinigup Falls on the Burntwood River. The business model for this project is unique in that it represents the first time Manitoba Hydro has entered into an equity partnership with a First Nation. The project is being managed by the Wuskwatim Power Limited Partnership, an equity partnership between Nisichawayasihk Cree Nation and Manitoba Hydro. The estimated cost for Wuskwatim is approximately \$1.6 billion.

The Conawapa generating station is 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 add 1,250 MW of generating capacity. The water storage for the station is designed to remain almost entirely within the natural banks of the Nelson River, significantly limiting flooding. Construction of this facility would take eight years after receiving all regulatory approvals and licences. The estimated in-service cost of the generating station is over \$5 billion.

Pointe du Bois Generating Station, the oldest hydro-electric plant operating in Manitoba, began producing electricity in 1911. A complete reconstruction of the station is planned. Manitoba Hydro would construct a new powerhouse, spillway and dam with modern operating and safety standards. The capacity of the station would be increased from 78 MW to approximately 120 MW.

The existing structure would be decommissioned on completion of the new station. The project is estimated to cost \$800 million, with a planned in-service date of 2015.

Housing

The Manitoba housing market strengthened further in 2007 as housing starts achieved a two-decade high and resale activity accelerated. Manitoba starts were among the most active in Canada, increasing to 5,738 units, the highest level since 1987 (see Chart 20). Manitoba's growth ranked third strongest among provinces with an increase of 14.1%, significantly ahead of the national average of 0.4%.

Driven by apartment and condominium construction, multiple-unit starts gained 27.4% last year with 1,881 units built, the highest level since 1987. Single-detached starts achieved a two-decade high with 3,857 units constructed, up 8.6%.

Canada Mortgage and Housing Corporation (CMHC) projects Manitoba will be the only province with continued new housing growth over the medium term. Starts are forecast to increase 1.1% in 2008, the second-highest growth among provinces, and 1.7% in 2009, the highest increase. In contrast, Canada is forecast to decline 7.3% in 2008 and 3.3% in 2009.

Confidence in the Manitoba housing market continued to promote investment. The value of residential building permits has risen significantly in the past two years, increasing by almost two-fifths compared to 2005 (see Chart 21). The value increased to \$966 million in 2007, up 16.5% from \$829 million in 2006. Building permits outside of Winnipeg increased 23.6% to \$371 million, in part due to more renovation activity and additions.

Total investment spending on new dwellings rose 21.6% to \$855 million in 2007 with the second-highest growth among provinces. Construction of new apartments and single-detached housing led the large increase. Renovation investment activity set a new record in 2007, achieving a level of \$1.1 billion, with 6.7% growth over 2006. Compared to 2000, Manitoba's annual renovation spending has doubled.

The heightened activity of the housing market and the slow growth in the number of listings in the resale market fuelled gains in residential resale prices. In 2007, CMHC estimates the average price for a house in Manitoba rose 12.5% over the previous year to \$169,000 (see Chart 22).

Residential Multiple Listing Service (MLS) resale activity in 2007 grew 6.3%, in terms of the number of units, with the Winnipeg Realtors Association reporting a 19.3% rise in total dollar sales. Over 13,000 properties were

Chart 20
Manitoba Housing Starts

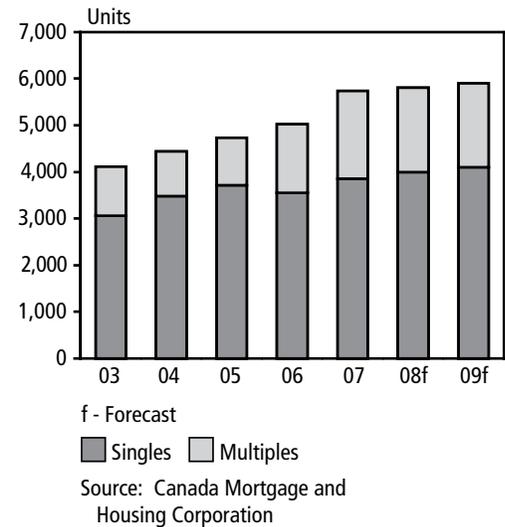


Chart 21
Value of Manitoba Residential Building Permits Issued

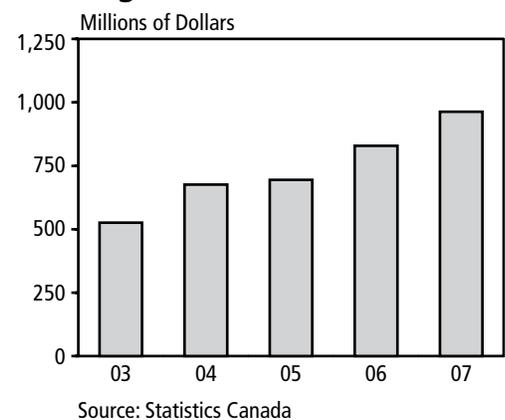


Chart 22
Manitoba Average Residential Resale Price

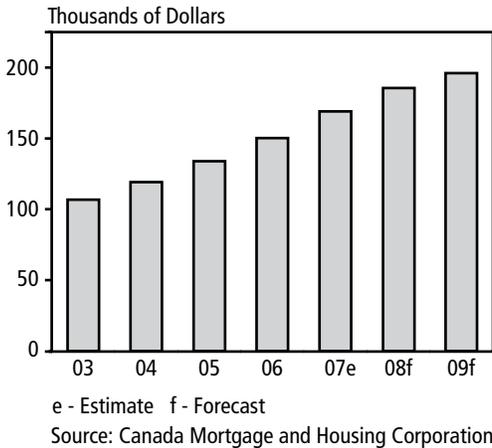
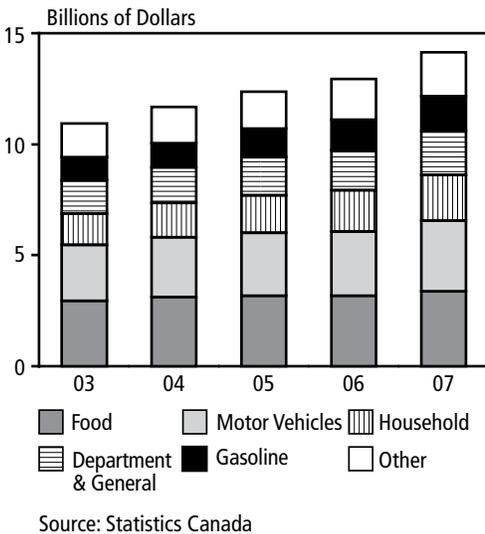


Chart 23
Manitoba Retail Sales by Type



sold and dollar value was well over \$2 billion for the first time, marking five consecutive years of double-digit growth in the residential resale market. Among all Winnipeg neighbourhoods, the weighted average price of residential detached MLS resales was \$182,209, up 13.2% from 2006 and the strongest growth in the last five years.

CMHC forecasts a tight housing market for 2008, with Manitoba resale activity largely staying flat at 0.7% growth. Average prices are forecast to gain 9.8%, the second-highest increase among provinces. More resale activity is forecast for 2009, increasing 1.1% and prices are projected to rise more slowly at 5.7%.

Despite the rapid appreciation of housing prices, Manitoba remains affordable. The Housing Affordability Index, published by RBC Economics, ranks Manitoba as having the most affordable housing in Canada in three out of four housing categories: standard two-storey, standard townhouse, and standard condo; and Manitoba ranks second in the detached-bungalow category.

Retail Trade

With higher incomes and increased purchasing power, Manitoba consumers enjoyed greater confidence last year. Manitoba's retail sales increased to \$14.2 billion, up 9.5%, in 2007 (see Chart 23). Manitoba's improvement in retail sales ranks second highest among provinces and ahead of Canada at 5.8%. Over the past five years, retail trade has expanded at a robust pace in Manitoba, growing 34.1%, the third-highest increase in Canada.

The gains have come from all major categories of retail spending. The largest three sectors (food and beverage, new car dealers, and general and department stores) had combined growth of 7.2%. These sectors make up more than half of all retail sales. The rest of the retail sector boosted growth with a 12.6% expansion.

Among these remaining sectors, the wealth effect of rising real estate prices, as well as demand for goods related to new home construction, continued to encourage spending. Retail sales at furniture stores increased 24.3% and sales for electronics, appliances and computers rose 15.7%. Renovation spending was an important factor behind the 11.7% rise in home centre and hardware sales. The only sector to decline was specialized building materials and garden stores, which contracted by 1.6%. This category makes up 1.3% of total retail sales. Overall, home-related retail spending, at 15% of total spending, increased 12.4%.

Motor vehicle sales and services, which represent over a fifth of all retail sales in Manitoba, increased 10.2% in 2007. New car dealers saw a 7.5% rise in sales in 2007 while selling 47,099 units. New motor vehicle sales were up 2.6% compared to 2006, most of which were trucks. Truck units include SUVs and minivans and represented 57% of new motor vehicle purchases at 26,918 units last year, while 20,181 passenger cars were sold. Building on a large, double-digit increase in 2006, used and recreational vehicles and parts sales gained 22.2%.

Higher gas prices contributed to a 14.4% increase in gasoline sales. The average retail price for gasoline in Winnipeg was over one dollar per litre in 2007 and the gasoline component of the Consumer Price Index for Manitoba was up 5.0% from 2006. Gasoline sales account for over a tenth of all Manitoba retail sales.

With growing population and personal incomes, plus relatively low personal debt (see Chart 24), the retail trade industry is expected to increase investment to keep pace. In a Statistics Canada survey of investment intentions, Manitoba's retail industry intends to invest \$275 million in 2008, 15.4% more capital investment than in 2007.

Tourism

Manitoba's domestic tourism activity growth outpaced the national average in 2007 even as the number of U.S. visitors to the province fell to a record low. A combination of a strong domestic economy, higher personal disposable income, and record attendances at festivals mitigated some of the pressure from sustained high gasoline prices, the appreciation of the Canadian dollar and security concerns.

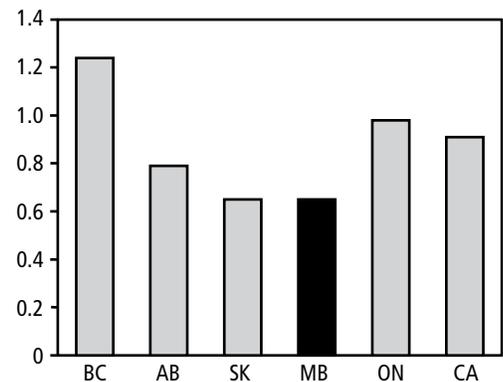
The total number of non-resident travelers entering the country into Manitoba fell 8.9% in 2007, slightly less than the Canadian decline of 9.1%. The number of U.S. travelers to Manitoba fell 9.4% and declined 11.0% nationwide. A large share of auto traffic passengers to Manitoba from Minnesota and North Dakota face not only higher currency and gasoline prices, but increased confusion over new U.S. passport requirements. These factors exerted a drag on overnight visits.

Trips to Manitoba by non-residents that were one or more nights in duration were down 5.8%. Same-day trips were particularly weak, down 12.8%.

Domestic tourism was buoyed as most of Manitoba's popular festivals and events reported growing success in 2007. Folklorama, North America's largest and longest-running multicultural celebration, achieved its largest draw in five years, with 459,000 visits to its 45 pavilions. The Winnipeg Fringe Festival

Chart 24

Ratio of Total Personal Debt to Personal Disposable Income, 2006



Source: Chartered Accountants Institute of Manitoba

“Low unemployment and strong increases in personal disposable income in the province will help support the growing demand for pleasure travel.”

The Conference Board of Canada
Travel Markets Outlook
Autumn 2007

Chart 25
Manitoba Employment and Unemployment Rate

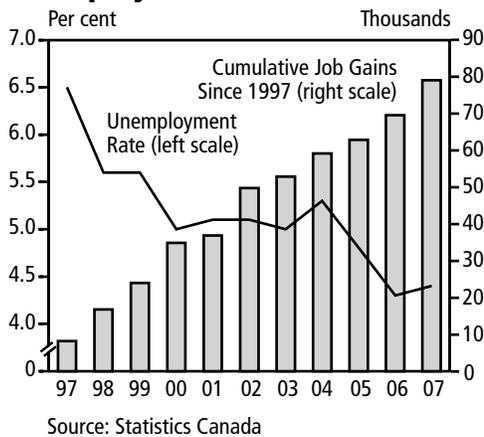
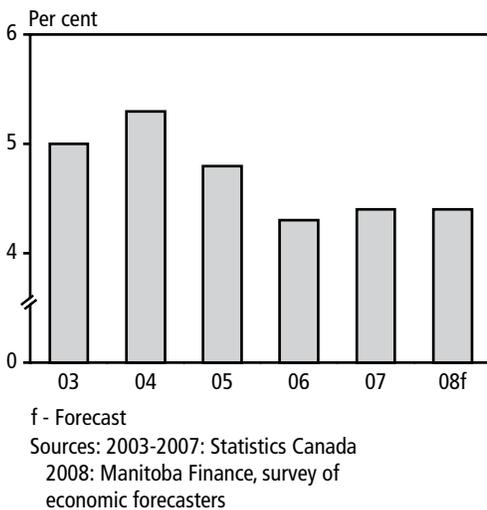


Chart 26
Manitoba Unemployment Rate



attained a new record at 71,921 paid attendance for the 12-day event. The Winnipeg Folk Festival reported 44,791 concert-goers, just shy of its record attendance the previous year.

Manitoba has several prominent annual celebrations, such as the Festival du Voyageur, Jazz Winnipeg Festival, CBC Winnipeg Comedy Festival, Winnipeg International Writers' Festival, the Icelandic Festival, the Manito Ahbee Music Fest, Winnipeg International Children's Festival, and Northern Trappers' Festival among many others.

Passenger traffic at Winnipeg's James Armstrong Richardson International Airport was up 5.3% in 2007 after increasing 4.8% in 2006. Business travel supported increased passenger traffic.

The number of conventions held in Winnipeg increased 2.6% in 2007 as the number of delegates rose by 1.9% and value of the conventions went up by 4.3%.

Winnipeg hotel occupancy rates rose to 67.6% in 2007, despite the lower traffic from the U.S. Increased domestic and overseas travel to Manitoba are offsetting lower U.S. volumes.

Overall, the Manitoba tourism season was upbeat in 2007 owing to a strong economy, according to the Conference Board of Canada. The Conference Board estimates total domestic and foreign overnight trips increased 3.2% last year, with strong domestic pleasure and business travel. Manitoba outpaced Canada's 2.2% increase in total overnight visits in 2007.

In its outlook for 2008, the Conference Board projects travel to Manitoba will increase 2.6%, with improvements from higher disposable income, a growing economy, more business travel, and boosts from overseas travel markets such as the United Kingdom and Germany. However, the Board projects that U.S. visits will fall 5.1% in 2008, the fourth consecutive decline, due to a high currency, heightened gasoline prices and new passport regulations.

Labour Markets

In 2007, Manitoba's labour market expanded by 10,400 workers or 1.7%, the best annual growth since 2002. Over 91% of the new entrants were employed, boosting total employment to 596,500 workers, a 1.6% increase over 2006 (see Chart 25). The current labour market is supported by an average monthly population gain of over 1,000 persons and strong demand.

All the employment gains in the province were full-time positions (10,200), a growth rate of 2.2%; the number of part-time jobs fell by 800, or 0.7%. The number of unemployed increased marginally by 900, the first increase since 2004. The unemployment rate averaged 4.4% in 2007, indicating

95.6% of available workers in the province were employed. The provincial unemployment rate remained below 5.0% for the third consecutive year (see Chart 26).

Employment growth was buoyed by the goods-producing sector in 2007, which expanded by 5.0%. Construction sector employment increased by 13.0%, while manufacturing employment increased 6.0%. Utilities, mining and agricultural sectors all reported a reduction in employment in 2007. Employment growth in the services-producing industries was driven by a sharp increase in professional, scientific and technical services (8.5%) and a rise in public administration (6.9%).

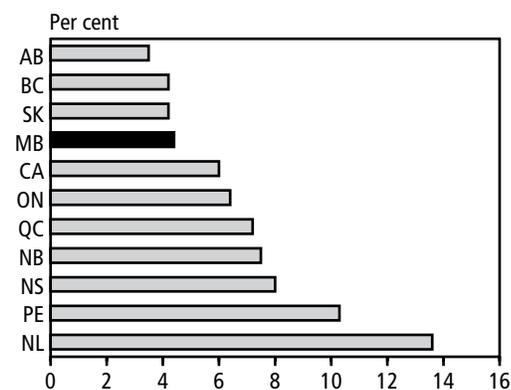
Across Manitoba, the labour market has been most active in Southeast and South-Central Manitoba. Since 2000, these two regions have surpassed all other regions for average annual growth in the labour force and employment. Both employment and labour force increased by 1.7% annually in Southeast Manitoba and by 1.6% annually in South-Central Manitoba. In contrast, the province's average annual growth in employment and labour force was 1.1% and 1.0%, respectively.

For the past two years, all seven regions of Manitoba have had an unemployment rate below 5.0%. In 2007, Manitoba's lowest unemployment rate was in the North-Central region at 3.0%, followed by the South-Central and Interlake regions at 3.4% (see table).

The relatively strong performance of the economy helped boost incomes in all industries and attract more participants to the labour market. Labour income, including supplementary income, increased by 6.9% in 2007, the highest increase since 1984 (see Chart 28). Riding the commodity price boom, wages in the mining and oil and gas extraction sector rose by 16.5%.

Chart 27

Unemployment Rate by Province, 2007



Source: Statistics Canada

Manitoba's Labour Force Statistics, 2007

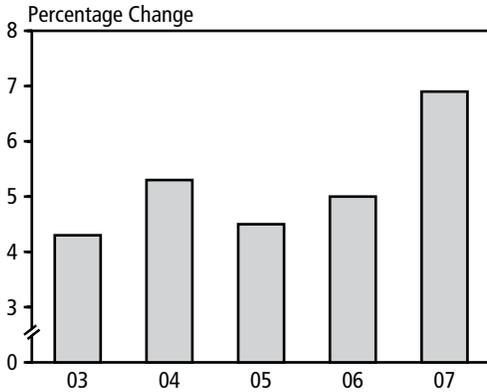
Economic Region	Working Age Population	Labour Force	Employment	Unemployment	Unemployment Rate	Participation Rate	Employment Rate
	(Thousands)				(%)		
Southeast	76.4	52.5	50.4	2.2	4.2	68.7	66.0
South Central	43.0	29.5	28.5	1.0	3.4	68.6	66.3
Southwest	82.1	53.7	51.6	2.2	4.1	65.4	62.9
North Central	35.6	23.4	22.7	0.7	3.0	65.7	63.8
Winnipeg	532.7	377.2	359.2	18.0	4.8	70.8	67.4
Interlake	69.6	47.0	45.3	1.6	3.4	67.5	65.1
Parklands & North	59.2	40.5	38.8	1.7	4.2	68.4	65.5
Manitoba	898.7	623.9	596.5	27.4	4.4	69.4	66.4

Source: Statistics Canada, Labour Force Survey (LFS)

LFS does not include persons on reserves, members of the armed forces and people living in institutions (penal institutions, hospitals, nursing homes).

LFS totals may not add due to rounding.

Chart 28
Manitoba Labour Income



Source: Statistics Canada

Strong employment demand in construction propelled income in the sector by 15.9%. The buoyant housing sector helped lift labour income in finance, insurance and real estate sector by 8.5% in 2007. The non-commercial service sector also fared well with income growth in health care and social services up 7.9%, education up 6.3% and public administration up 5.9%. Income in the manufacturing sector rose by 5.5%, while the utilities (2.9%) and agriculture (1.2%) sectors showed modest gains.

In the near term, Manitoba Finance’s survey of private sector economic forecasts indicates sustained strength in job creation in Manitoba. The survey is calling for 1.6% employment growth in 2008 and a further 1.2% rise in 2009. The unemployment rate is forecast to decline to 4.2% in 2008 and increase to 4.3% in 2009.

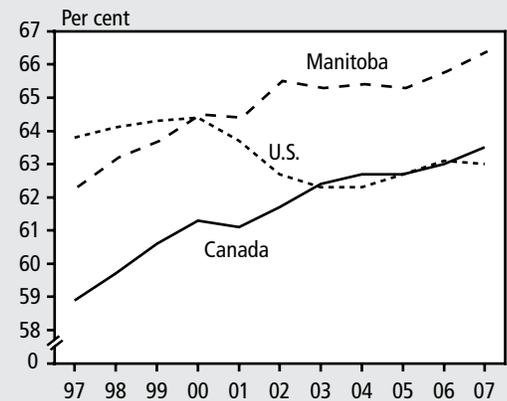
Participation and Employment Rates

Other healthy signs for Manitoba’s labour market are the worker participation rate and the employment rate. The participation rate, an indicator of labour market conditions, shows the size of the labour force relative to the working-age population. Buoyant employment demand attracts workers in the labour market and raises the rate, while slow demand reduces it. The employment rate indicates the degree to which an economy can productively employ its population and shows the number of employed workers relative to the working-age population.

With good employment opportunities, the participation rate in Manitoba increased to 69.4% and the employment rate rose to 66.4% in 2007 (see Chart 29). Both setting new records and both ranked third highest among provinces.

The labour market conditions for older workers have significantly improved as their participation rate rose faster than any other age cohort. These workers continue to remain at work longer than their counterparts in previous generations. In the last ten years, the participation rate for workers aged 55 to 65 increased by 13.5 percentage points to 64.3%, compared to an increase of 2.7 percentage points for all workers. This bodes well for future growth in the province, especially with an aging demographic base, while instilling employers with confidence and adding to overall stability in the labour market.

Chart 29
Manitoba, Canada and U.S. Employment Rates



Sources: Statistics Canada
U.S. Department of Labor

Average Weekly Earnings

Manitoba's average weekly earnings increased 4.6% in January 2008 compared to the same period last year. Manitoba's increase in average industrial earnings was the second highest among provinces and higher than Canada at 3.1%.

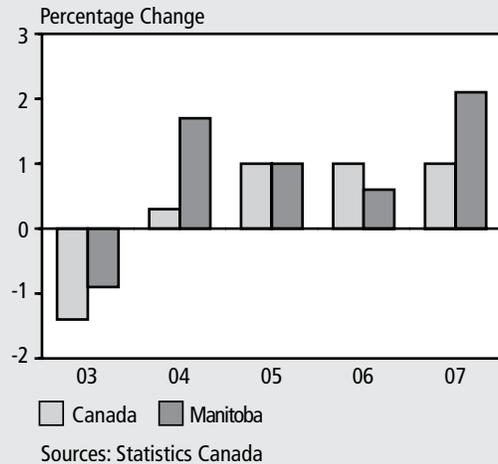
Manitoba's average weekly earnings grew 4.2% in 2007 to \$702. Manitoba's increase was third highest among provinces and well above Canada's increase of 3.2%. Manitoba's increase last year was the highest in almost 20 years.

Earnings growth has exceeded the national average in three of the last four years. In 2007, Manitoba's increase was the strongest posted in almost twenty years. After accounting for inflation, since 2002, Manitoba's real average earnings have increased 4.6%, the second-highest growth in Canada (see Chart 30).

Growth in average weekly earnings last year was led by education services (7.8%), construction (6.0%) and manufacturing (5.6%).

Chart 30

Real Average Weekly Earnings



Labour Market Definitions

Employment: Number of non-institutionalized, civilian working age adults (15 years of age and older) working at paid jobs plus those who are self-employed, including unpaid workers who contribute to the family's farm or other business.

Unemployment: People without work who are available for work and are actively looking for jobs, or have looked for work in the previous four weeks.

Labour Force: The sum of employed and unemployed. Excludes those who are not employed and who are not looking for work.

Participation Rate: Labour Force as a percentage of working-age adults.

Employment Rate: Employment as a percentage of working-age adults.

Investment

Capital spending has been strong in Manitoba over the last two years, increasing 14.6% in 2006 and 16.8% in 2007. Over this period, total capital expenditures rose by 34% from \$6.8 billion in 2005 to \$9.2 billion in 2007, a \$2.3 billion gain. New capital spending was broad based with significant increases in the transportation, minerals and utility sectors. Construction and machinery and equipment investments were also strong. This strong performance occurred despite the environment of higher interest rates, slowing U.S. demand for Canadian products and a stronger Canadian currency.

Chart 31
Manitoba Total Capital Investment

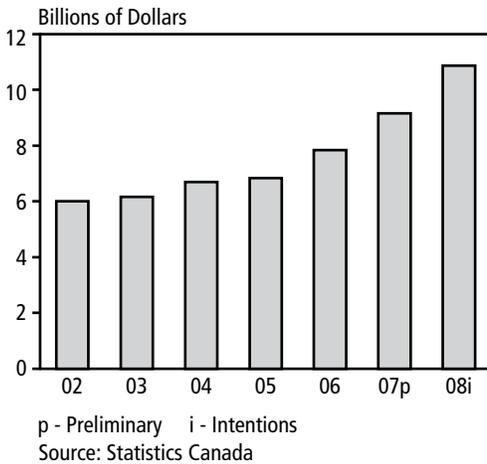
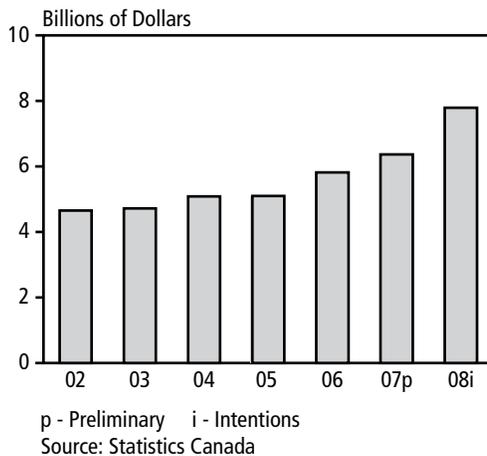


Chart 32
Manitoba Private Capital Investment



According to the 2008 Statistics Canada's Survey of Private and Public Investment Intentions report, the positive momentum in capital spending is expected to continue. This report suggests Manitoba will lead all provinces in capital spending growth this year, with an 18.8% increase over 2007, up \$1.7 billion to a record \$10.9 billion (see Chart 31). This rise is well above the anticipated national increase of 5.2%. In 2008, Manitoba is expected to lead the nation in capital investment for the second consecutive year.

Intentions for private sector capital spending, which accounts for approximately 72% of all new investment in the province, is up 22.4% in 2008, while public investment intentions are up 10.6% (see Chart 32). The private capital investment increase will be the highest among provinces. Capital investment in new construction is expected to increase by 22.2% and rise by 13.0% in machinery and equipment.

The decision by TransCanada Corporation to build the Keystone Pipeline through Manitoba featured prominently in the investment intentions estimate. The \$450-million pipeline project along with other ongoing projects, such as the Winnipeg airport construction, are expected to boost transportation sector capital spending by 135.0% to \$1.6 billion in 2008. A significant investment in machinery and equipment will lift administrative and support, waste management and remediation services investment by 112.8% in 2008, the second-strongest sector in Manitoba. Construction of the Wuskwatim Generating Station and the downtown Hydro Tower will boost capital expenditure in the utilities sector by 46.2% this year. Investment in the manufacturing sector will decline by 19.1% in 2008, following two years of strong growth.

There are several factors promoting strong capital spending in Manitoba: buoyant domestic demand fueled by continued population growth; rising wages and personal incomes; strong corporate profit growth; revaluation of mining, mining exploration and agriculture investments due to record or near-record prices; higher rate of return on investments due to relatively low land and energy costs and lower prices on imported productivity-enhancing machinery and equipment arising from the stronger currency.

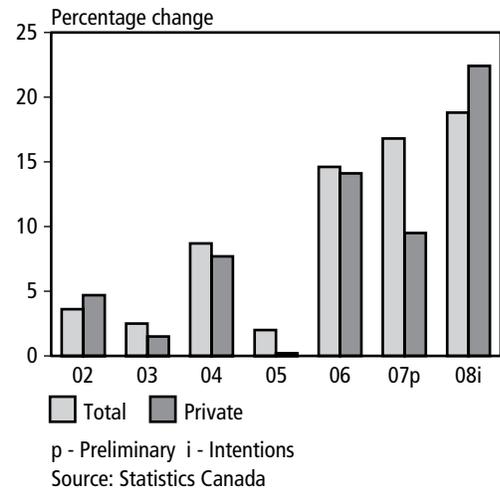
Several major capital projects have just been completed, are under way or are being planned. Examples include the following:

- Construction is continuing on the \$665-million **Red River Floodway Expansion**. This undertaking more than doubles the capacity of the existing floodway. The expanded waterway will protect the City of Winnipeg from a one-in-700-year-level flood. The completion date for the project is 2010.

- A new airport terminal building and other infrastructure is being constructed at the **Winnipeg James Armstrong Richardson International Airport**. The Winnipeg Airports Authority's project represents an approximate \$580-million capital investment. The new terminal is designed to accommodate the newer wide-body aircraft. A new four-level, 1,559-stall parkade was recently opened and the entire project is expected to be completed in 2009.
- **Vale Inco** is considering a \$750-million investment that would boost production at its Thompson operations for mining, milling, smelting and refining by about 36% and extend the life of the mine to 2027. The expansion plans would see Vale Inco employ an additional 100 people over the next several years, bringing its Thompson-area workforce to about 1,700.
- The federal government has declared the **Canadian Museum for Human Rights** a federal institution and it will be the first national museum outside Ottawa. The \$265-million museum in Winnipeg is scheduled to open in 2011. The federal government has committed \$100 million for capital costs and \$22 million annually for ongoing operation. The City of Winnipeg committed \$20 million and the provincial government will double its capital support to \$40 million.
- **HudBay Minerals Inc.** is committed to spending approximately \$120 million in 2008 on capital projects including exploration activity. This follows expenditures of \$98 million and \$119 million in 2006 and 2007, respectively. In addition, HudBay Minerals' aggressive exploration plan focuses on the Flin Flon Greenstone Belt, targeting new discoveries and advancing the Lalor Lake deposit through ongoing drilling. The Flin Flon-Snow Lake Belt is considered to be among the most productive belts in the world with over 20 currently and past producing copper, zinc, gold and silver deposits.
- Several accommodation-related capital projects: **Canad Inns** will build a \$25-million, 19-storey hotel adjacent to the Health Sciences Centre. The hotel will boost Winnipeg's reputation as a world class biotechnology and life sciences centre by linking accommodation services next to a health care facility which includes the new Siemens Institute for Advanced Medicine. **Place Louis Riel All-Suite Hotel** will undergo a \$15-million renovation to meet growing demand. The project will be completed by late 2009 or early 2010. **Lakeview Management Inc.** plans to construct a seven-storey, 100-room luxury hotel next to the Winnipeg airport terminal building and a 50,000-square-foot office building to bridge the gap between the new hotel and the existing airport hotel. The total estimated cost is \$28 million and the project could start as early as fall 2008. The expected completion date is late 2009 or early 2010.

Chart 33

Manitoba Capital Investment Growth



**“Continued strength
in non-residential
construction and a strong
increase in retail sales were
also pillars of growth.”**

Laurentian Bank Securities
The Provincial Monitor
January 2008

- **Siemens Institute for Advanced Medicine** is constructing an 80,000-square-foot facility at the Health Sciences Centre that will house some of the most innovative experimental procedures and technology. The public-private funded project is estimated at \$35 million. Construction is under way and expected to be completed in late 2008.
- **CentreVenture Development Corp.** announced a \$40-million capital investment project over the next two years to rebuild a nearly three-block section of downtown Winnipeg. The cornerstone will be a new \$30-million, four-storey, 80,000-square-foot office/parking/retail complex. The office building will serve as the new head office for the Winnipeg Regional Health Authority, bringing about 200 office workers to the area.
- **Canada Post** plans to spend more than \$50 million to replace its downtown Winnipeg sorting plant with a new, environmentally-friendly facility. The crown corporation has begun a search for a developer to design and build a structure that will achieve certification under the U.S. Green Building Council's Leadership in Energy & Environmental Design (LEED) Rating System.
- **Hudson Bay Railway Company (HBRC)**, with the Government of Canada and the Province of Manitoba, announced \$68 million in public and private sector support for upgrades to the Hudson Bay rail line and the Port of Churchill. The project involves upgrading the 1,300-kilometre Hudson Bay Railway line and improving infrastructure at the port. The two governments are providing \$48 million in total, cost shared 50-50. HBRC is committing \$20 million for rail-line maintenance as part of a renewed 10-year agreement by its parent company.
- **TransCanada Corporation** is set to begin construction on the Keystone Pipeline, a crude oil pipeline stretching from Hardisty, Alberta through to the U.S. Midwest markets at Wood River and Patoka, Illinois. The project involves the conversion of an existing natural gas pipeline to crude oil and construction of a new pipeline. Manitoba's portion of the \$5.2-billion project is expected to cost \$425 million. This pipeline will have an initial capacity of 435,000 barrels per day in 2009 and expand to 590,000 barrels per day in late 2010.
- The **University of Manitoba** announced Project Domino, a series of capital projects valued at over \$100 million. The project will start this year and take five years to complete. This undertaking will affect 13 faculties and result in the construction of a new 350-bed residence and renovation of other structures on campus including converting an auditorium into a 400-seat performing arts theatre.

- In November 2007, the **University of Winnipeg** unveiled an unprecedented \$70-million capital campaign titled “A World of Opportunity.” The campaign has already raised almost 80% of the total contribution. These funds will support innovative campus development projects including the Richardson College for the Environment & Science Complex – a state-of-the art facility built at the downtown campus – and the CanWest Centre for Theatre and Film, as well as a proposed new student housing building and child-care facility.
- The **Winnipeg Indoor Soccer Complex** is set to be built at the University of Manitoba. The \$12.5-million facility is funded jointly by the University of Manitoba, the City of Winnipeg, the Province of Manitoba, the Government of Canada and the Winnipeg Soccer Federation. The 105,000-square-foot complex will consist of four indoor playing fields, pro shop, restaurant, lounge and concession stand.
- Construction began on the new \$12.5-million **East District Police Station** in September 2007. City council approved a public-private partnership project that will amalgamate Winnipeg’s six-district police service into a four-district model. The new station will replace current stations in St. Boniface and Transcona.
- **Thompson Regional Airport Authority** plans to build a new terminal at an estimated cost of approximately \$15 million including infrastructure. Construction is expected to begin September 2009. The existing airport terminal building will be leased out. In 2006, the airport authority completed the rebuilding of a 1,800-foot runway and the extension of the gravel runway.
- Manitoba Hydro is in the planning stages for the construction of the **Conawapa Generating Station**. With a net capacity of 1,250 MW and an estimated in-service cost of \$5 billion, Conawapa will be Manitoba’s largest hydro-electric project. The project will create about 13,000 person years of direct and indirect employment over its eight-year construction period.
- Manitoba Hydro is planning to reconstruct the **Point du Bois Generating Station**. The modernization will entail the construction of a new powerhouse, spillway and dam. The new facility will increase the capacity from 78 MW to 120 MW. The estimated cost of the project is \$800 million.

Foreign Markets

Manitoba’s export performance was among the best in Canada last year. The value of foreign merchandise exports increased 13.2% to \$11.5 billion in 2007 (see Chart 34), the third-highest increase among provinces. Canada’s total

“Strength in both residential and non-residential construction, along with a sturdy manufacturing sector, buoyed the province’s economy.”

BMO Capital Markets
Winter 2008

Chart 34
Manitoba Foreign Merchandise Exports

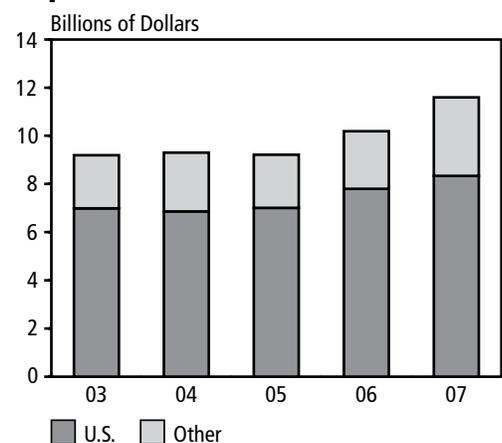
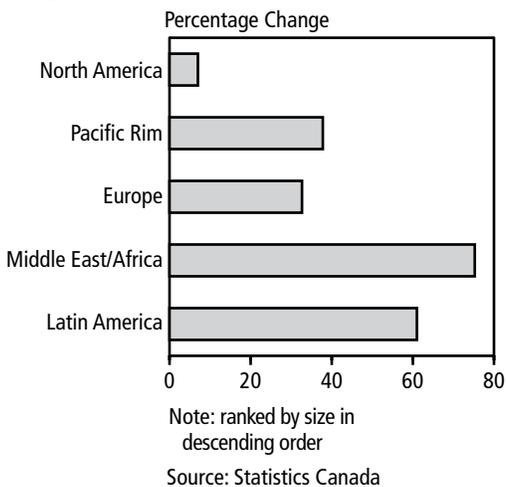


Chart 35
Manitoba Foreign Exports By Region, 2007



By fostering trade between countries aside from the U.S., both Manitoba and Canada have reduced their dependency on U.S. markets over the past five years.

exports were up more modestly at 1.8%. Despite the high Canadian dollar, Manitoba sales to the U.S. still increased, while Manitoba foreign exports to non-U.S. markets grew significantly. Gains were concentrated in metals and agricultural goods.

Manitoba's exports to the U.S., which accounted for about 72% of total foreign merchandise exports last year, grew \$472 million, or 6.0%, while Canada's U.S. exports declined 1.4%. Almost three-fifths of Manitoba's exports to the U.S. were destined for mid-western states, rising 13.3% in 2007. Exports to Michigan and Nebraska surged, largely due to metals sent to Michigan and cattle destined for Nebraska. Although the Canadian dollar appreciated against the U.S. dollar last year, high commodity prices contributed to healthy growth in the value of exports.

In 2007, Manitoba's exports to non-U.S. destinations jumped \$875 million, or 36.7%, to \$3.3 billion, with major increases to South Africa, Taiwan, China, Japan, Belgium, the United Kingdom and Hong Kong (see Chart 35). For Canada overall, exports to non-U.S. markets were up 16.6%. By fostering trade between countries aside from the U.S., both Manitoba and Canada have reduced their dependency on U.S. markets over the past five years. In 2002, the share of non-U.S.-bound goods to total Manitoba exports was 19.1%. Last year, non-U.S. markets accounted for 28.3% of Manitoba exports. Non-U.S. exports made up 20.8% of Canada's total exports in 2007, higher than its 13.2% level in 2002.

Increases in refined and smelted metal exports were behind most of the growth in exports to China, Hong Kong, Taiwan, Belgium and South Africa and, to a lesser extent, in the U.S. and U.K. The two latter countries purchased more alloyed metals as well. Gains in Japan and Mexico were largely in agricultural products. For the most part, these two countries purchased more oilseeds, but also increased consumption of processed meat products, wheat and other grains.

Though primary industries account for a small proportion of Manitoba's economy, their exports accounted for most of the improvement in foreign exports of 2007. Leading the way for total foreign exports were metals with an increase of \$821 million over last year, up 54.7%. Cattle, oilseeds and grain exports also gained significantly compared to 2006.

Outside of primary goods manufacturing, notable improvements in the export sector were in fertilizer, aerospace products and parts, electrical equipment and material handling equipment.

For the majority of export industries, gains and losses were volatile as Manitoba companies adjusted to structural change in global markets. Twelve

Manitoba Foreign Exports

BY INDUSTRY	2003	2004	2005	2006	2007p	2007 Share
	(Millions of Dollars)					(%)
Manufacturing						
Primary Metals	870.4	963.1	920.8	1,623.5	2,458.5	21.3
Food	1,099.7	1,207.0	1,090.9	1,068.1	1,237.7	10.7
Transportation Equipment	865.1	923.0	1,013.2	1,059.8	1,115.9	9.7
Machinery	635.2	740.1	763.3	733.9	786.1	6.8
Chemicals	463.3	459.9	461.8	957.0	706.1	6.1
Plastics	271.5	291.6	314.6	303.3	286.1	2.5
Wood	363.0	468.9	449.8	332.6	277.1	2.4
Electrical and Electronic	214.3	221.3	250.2	244.1	257.4	2.2
Paper	264.0	254.2	262.3	262.8	239.7	2.1
Furniture and Fixtures	322.1	300.2	275.6	234.1	195.4	1.7
Fabricated Metals	123.8	138.6	174.4	178.9	178.7	1.6
Printing	130.8	134.1	138.0	138.8	118.0	1.0
Petroleum	187.6	166.3	97.2	90.0	115.9	1.0
Clothing and Textiles	134.4	112.2	88.7	78.8	75.0	0.7
Other Manufacturing	53.6	68.4	61.2	65.7	107.8	0.9
Total Manufacturing	5,998.9	6,448.9	6,362.0	7,371.4	8,155.4	70.7
Agriculture	2,057.7	1,947.4	1,713.1	1,584.6	2,102.8	18.2
Electricity	263.7	379.7	572.1	637.9	543.5	4.7
Crude Petroleum	488.7	106.5	96.5	92.6	246.4	2.1
Other Primary	31.3	30.1	32.8	40.0	73.3	0.6
Other Exports	353.8	384.2	436.2	458.8	410.6	3.6
Total Exports	9,194.2	9,296.9	9,212.7	10,185.2	11,531.9	100.0
BY DESTINATION						
United States	6,986.3	6,858.5	7,005.1	7,800.9	8,272.5	71.7
China	157.5	413.9	230.6	327.6	542.9	4.7
Japan	508.0	455.0	476.6	386.2	438.0	3.8
Hong Kong	130.8	171.7	129.8	204.2	295.6	2.6
Taiwan	54.9	61.8	60.5	96.1	193.3	1.7
Mexico	204.6	255.0	176.2	152.9	171.8	1.5
Belgium	115.0	74.7	87.4	77.9	122.0	1.1
United Kingdom	70.8	62.6	83.6	71.7	110.7	1.0
South Korea	43.3	45.9	90.8	75.6	71.1	0.6
South Africa	7.2	7.4	8.7	27.2	69.9	0.6
Other countries	915.7	890.4	863.5	964.8	1,244.1	10.8
Total Exports	9,194.2	9,296.9	9,212.7	10,185.2	11,531.9	100.0

Note: Totals may not add due to rounding.

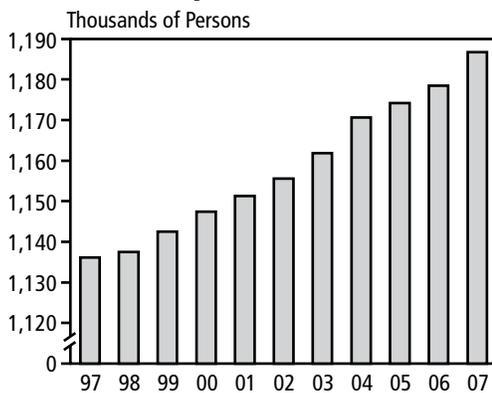
Sources: Industry Canada and Manitoba Finance

“All combined, Manitoba is one of the better-positioned provinces to weather a U.S. slowdown.”

**RBC Economics Research
Provincial Outlook
April 2008**

Chart 36

Manitoba Population



Note: July 1 data

Source: Statistics Canada

of the largest 25 export sectors registered increases greater than 10% in 2007, while six industries declined by more than 10%.

Typically, contracting industries have less ability to pass on higher costs arising from a rising currency to their customers, while facing intense foreign competition for their goods. Manitoba industries that encountered export declines in 2007 include the printing sector, furniture and fixture manufacturers, paper mills, and motor vehicle body and trailer manufacturers.

According to Export Development Canada, the outlook for Manitoba exports this year is for modest growth over the double-digit gains in 2007. A weaker U.S. economic outlook and a sustained and high Canadian dollar are expected to temper foreign export growth this year, but Manitoba is projected to have the second-highest increase among provinces on the continued strength of primary industry exports.

Population

In 2007, Manitoba's population was estimated at 1,186,679 persons, up 0.7% or 8,187 persons from 2006 (see Chart 36). Population data is released quarterly; however, the July estimate is considered the “official annual” population for the year. At 0.7%, population growth was ranked fifth highest among provinces. The Canadian population increased by 1.0% in 2007, with all provinces showing gains except Nova Scotia and Newfoundland and Labrador.

Since July, the population has continued to expand at a relatively fast pace. The provincial population as of January 1, 2008 is estimated at 1,193,600 up by 6,887 from July and up 13,087 persons from a year previous. The twelve-month growth is the largest increase since 1982, with a record 9,170 more people coming to Manitoba from other countries than leaving, and 3,908 persons through net natural increase. The province also gained 1,399 persons through movement of non-permanent residents and Canadian citizens traveling abroad.

Good employment opportunities, strong wage gains and an affordable cost of living in Manitoba have significantly improved the trend in interprovincial migration. The loss through net interprovincial migration decreased sharply to 1,390 persons in 2007, the lowest level in 23 years and down from 9,298 and 7,658 persons in 2005 and 2006, respectively. The outflow to Alberta was cut from a net loss of 4,388 persons in 2006 to 905 persons last year. In the fourth quarter of 2007, Manitoba gained population through migration from Alberta.

Manitoba continues to attract young individuals to the province. Over the last nine years, Manitoba has gained persons aged 15-24. Last year (July 2006 to July 2007), Manitoba gained 802 persons in the youth category, up from 299 persons in the previous year. In 2003-04, net youth migration increased to 1,350, the largest increase in over twenty years.

The gain in youth migration has helped bolster their proportion in the total population. The share of youth has increased to 14.4%, the third-highest share among provinces and above the national average (13.6%). Manitoba also has the second-youngest population base among provinces with a median age of 37.4, in contrast to a median age of 39.0 in Canada.

As the unemployment rate declines to historical lows and the labour force participation rate nears an anticipated maximum, population growth is becoming increasingly essential for economic prosperity in all provinces. Worker shortages are developing in a number of sectors. At the same time, natural population growth (births less deaths) is dampened by an aging demographic base.

To boost population growth, Manitoba has been proactive, establishing the successful Manitoba Provincial Nominee Program (PNP). This program nominates applicants for permanent residence in Manitoba. The primary objective of the program is to increase immigration levels through innovative approaches that support Manitoba's demographic and economic development. This objective has been met by attracting more than 43,000 immigrants over the past five years. Within eight years, the number of annual provincial nominees has increased to over 70% of total provincial immigration at 7,680 persons in 2007 (see Chart 37). Manitoba's share of Canadian immigration rose to 4.6% last year, above Manitoba's population share for the second consecutive year.

A new goal for the PNP was announced in last year's Speech from the Throne. The new objective is to incrementally increase immigration to 20,000 persons by 2016. Sustaining this level of balanced increase will ensure a steady flow of new workers for the labour market and help expand the provincial economy, supporting housing, retail and other services.

Largely due to the positive momentum from the PNP, Manitoba's population increased by an average of 7,105 annually over the past five years, up from 4,451 over the previous five-year period. During the same five-year period, immigration more than doubled, increasing to 8,604 from 4,117 annually while the average annual natural increase slowed to 3,984 from 4,321 annually. In 2007, Manitoba set a new record for international immigration with a preliminary total of 10,947 persons (see Chart 38).

Chart 37
Manitoba Provincial Nominee Program

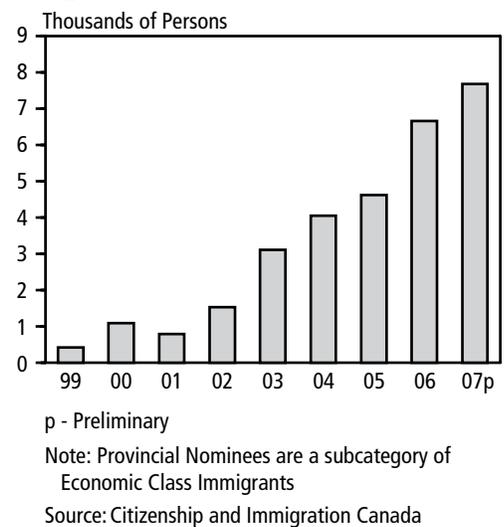


Chart 38
Manitoba Immigration

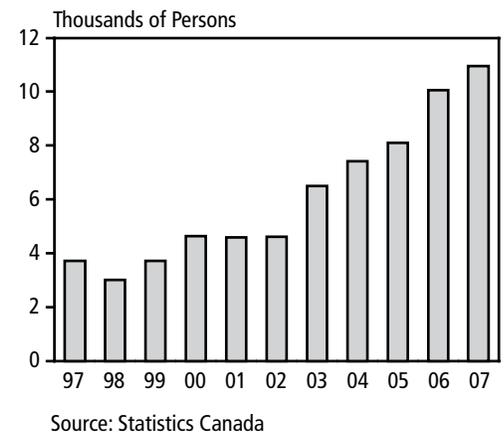


Chart 39
Real Average Weekly Earnings, 2002 to 2007

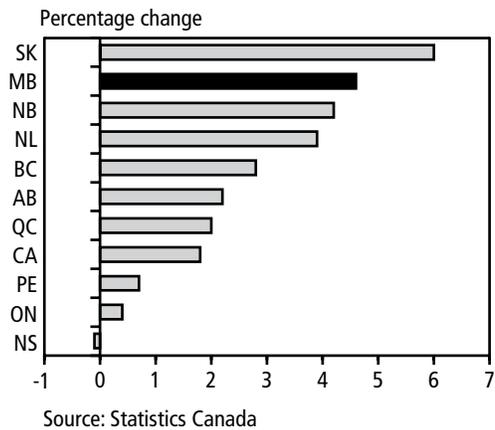
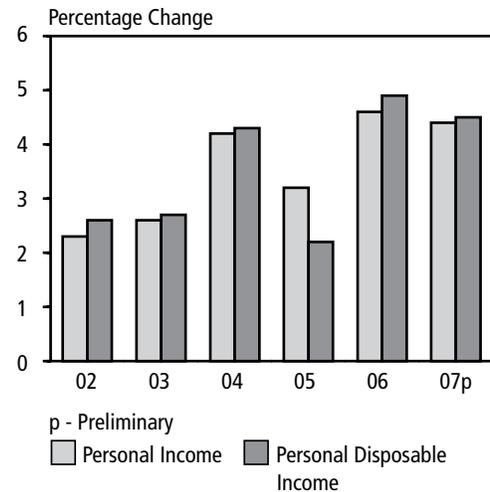


Chart 40
Manitoba's Personal Income Per Capita and Personal Disposable Income Per Capita



Source: Statistics Canada
 Manitoba Bureau of Statistics

Manitoba Finance's survey of demographic forecasters shows that Manitoba's annual population growth is projected to increase over the medium term. The average annual growth from 2008 to 2011 is 0.7%, increasing to 0.8% annual growth in 2012.

■ HIGHER INCOMES

One of the principal benefits of a growing economy is rising incomes. Higher incomes promote savings and investment, along with higher personal consumption and increased living standards.

Manitobans have experienced steadily rising wages over the past several years. In 2007, average earnings grew 4.2% and ranked third highest among provinces. Average weekly earnings have grown 16.0% over the past five years, the third-highest rate among provinces. After adjusting for inflation, 'real' average earnings rose 2.1% in 2007, third among provinces. Real earnings increased 4.6% over the past five years, which ranked second best among provinces with its strong performance (see Chart 39).

Personal income and personal disposable income are two principal measures of overall economic well-being. Personal income includes wages and salaries, investment income and transfers from government (for example, employment insurance benefits and CPP income). Personal disposable income is personal income less personal income taxes and social security program contributions. Broadly, personal disposable income is the income left to individuals after their personal taxes have been paid.

Manitoba personal income growth has been exceptional. In 2007, wages and salaries grew 6.7%, their highest rate in 23 years and the sixth consecutive year above 4.0%. Farm income growth was strong, increasing 27.6%, and personal investment income rose 7.2% last year. The strength in income bolstered per capita personal income growth at 4.4%, its third-strongest level in 17 years, and per capita disposable income gained 4.5% (see Chart 40). Canada's per capita personal disposable income growth in 2007 was 4.5%, equal to Manitoba's increase.

After adjusting for inflation, 'real' income has also increased. On a per capita basis, preliminary 2007 data indicate real personal income increased by 2.3% and real personal disposable income rose by 2.4%. Real per capita disposable income grew at a slightly higher rate in Manitoba than Canada overall.

Real income per capita has increased 8.6% over the past five years. In the past 27 years, real per capita disposable income of Manitobans has never been higher (see Chart 41).

Looking ahead, private economic forecasters project a positive outlook for income growth in 2008 with Manitoba exceeding the national forecast. Per capita disposable income is estimated to rise 3.5%, ahead of Canada's estimated 3.0% growth. This year, real per capita personal disposable income for Manitobans is projected to rise 2.0%, above the forecast for Canada at 1.4%.

MANITOBA OUTLOOK

Manitoba Finance surveys several independent economic forecasting agencies regarding their economic projections for Manitoba and Canada. The survey is used to establish a consensus for the medium-term economic outlook.

In 2007, Manitoba's real GDP growth exceeded expectations set last March. The preliminary estimate by Manitoba Bureau of Statistics shows real GDP growth at 3.0%. This estimate is 0.4% higher compared to the estimate in Budget 2007.

In line with the weaker Canadian and U.S. economies in the latter part of 2007, and considering the risk of an economic slowdown or recession in the U.S., the consensus for Manitoba's real GDP growth has been revised down from last year's budget estimate of 2.9% to 2.7% for 2008. Despite the adjustment, Manitoba's growth is expected to equal the 10-year average and outperform the national average for the fourth consecutive year in 2009 (see Chart 42).

Manitoba's nominal GDP increased 7.1% in 2007 and is forecast to grow by 4.5% in 2008. This compares favourably with national growth of 5.9% in 2007 and 4.2% forecast in 2008. Strong growth in business profits, wages and salaries, and farm income will contribute to nominal GDP growth in both Canada and Manitoba. Manitoba Finance's survey of demographic forecasters shows that the population is expected to increase by 0.7% in 2008, matching the 2007 growth.

Strong growth in housing and non-residential investment projects, robust mining and mineral exploration, higher crop prices, increased electricity sales and modest growth in consumer spending supported by higher personal incomes are all important factors driving the positive outlook in the near term.

Manitoba's labour market is expected to remain healthy albeit tight, as the number of new jobs created approximately equals the growing number of new workers joining the labour market. Employment growth is projected at 1.6% in 2008 and 1.2% in 2009. The unemployment rate is anticipated to decline in 2008 to 4.2% and remain fairly stable in 2009 at 4.3%. The strong

Chart 41
Manitoba Real Personal Disposable Income Per Capita, 1990 to 2007p

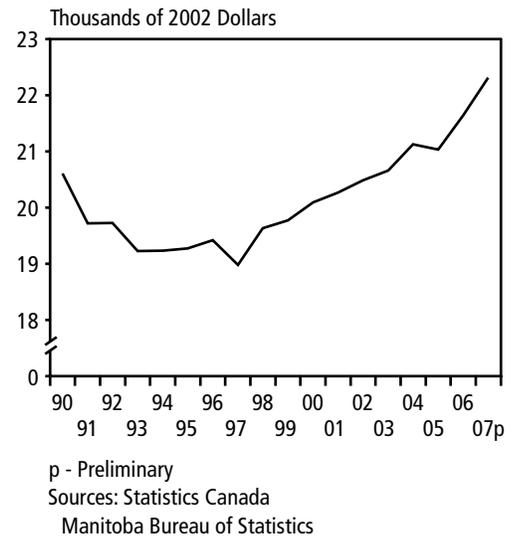
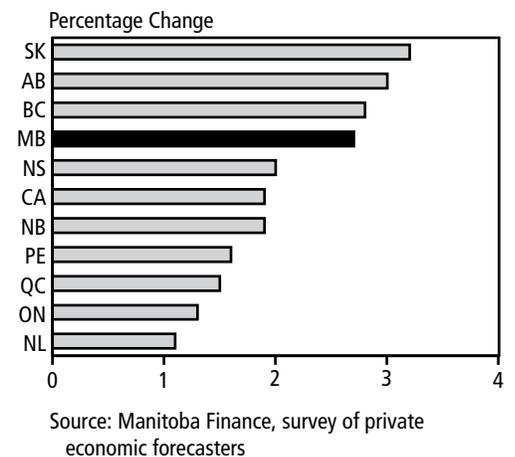


Chart 42
Real GDP Forecast by Province, 2008



Manitoba Outlook at a Glance

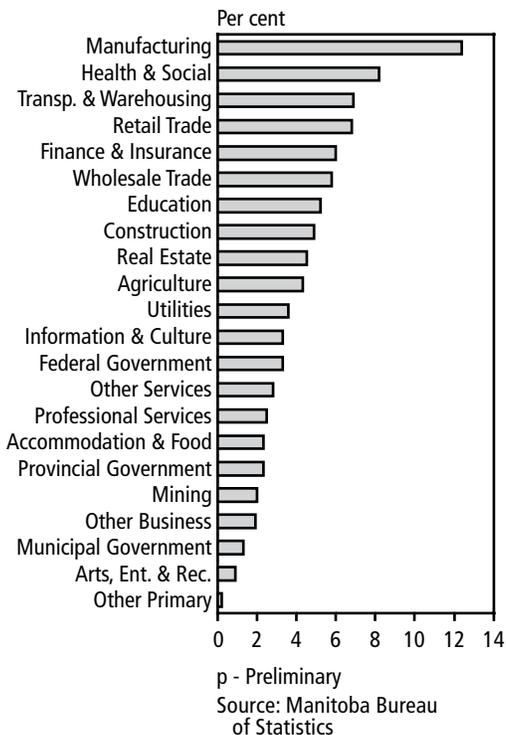
	2007	2008f	2009f
		(% Change)	
Gross Domestic Product			
Real	3.0	2.7	2.7
Nominal	7.1	4.5	3.9
Employment	1.6	1.6	1.2
Unemployment Rate (%)	4.4	4.2	4.3
CPI	2.0	1.7	2.1
Population	0.7	0.7	0.7

f - Forecast

Sources: 2007: Statistics Canada and Manitoba Bureau of Statistics
2008-2009: Manitoba Finance, survey of economic forecasters

Chart 43

Shares of Manitoba Gross Domestic Product, 2007p



Canadian dollar and improvements in global productivity will hold consumer price inflation at 1.7% in 2008 after 2.0% growth in 2007.

The instability in international credit markets caused by uncertainty regarding U.S. sub-prime mortgage-backed securities has prompted the International Monetary Fund (IMF) to cut back their 2008 global outlook. Since last July, the IMF has reduced the global GDP growth for 2008 from 5.2% to 4.1%. The 2008 U.S. growth outlook was also lowered to 1.5%. The downward revision for Manitoba was much smaller from 2.9% to 2.7% growth in 2008.

There are several risk factors that could affect the Manitoba outlook for the coming year. Further deterioration of the U.S. housing market and tighter credit conditions add uncertainty to the global outlook. Inflationary pressure from rising food, fuel and shelter costs, lower interest rates, the pace of the Canada-U.S. exchange rate appreciation and a greater than expected slowdown in the Asian economic outlook are other notable risks in the economic outlook.

■ THE MANITOBA ECONOMY: STRENGTH IN DIVERSITY

Economic diversity with a broad industrial base is a key attribute of the Manitoba economy. Many credit rating agencies and leading economic forecasters, including Moody's Investors Services, Standard and Poor's, Dominion Bond Rating Service and Conference Board of Canada have all cited diversity as one of the province's main economic assets.

The large and diverse structural base has provided Manitoba with stability and measured growth over the last decade (see Chart 43). Fluctuations of

economic performance have been moderated as weaker performance in some sectors has been offset by stronger developments in other sectors.

The province's diverse economic structure, encouraged by initiatives and development, has fostered a vibrant yet stable economy. According to Statistics Canada's real GDP data, Manitoba is the most stable economy in Canada as measured by the least amount of variation in growth over a ten-year period. Manitoba is one of only three provinces that have generated 15 consecutive years of positive employment growth. Among these, Manitoba's employment growth has been the most consistent. Manitoba is also unique among provinces with 18 consecutive years of private investment growth.

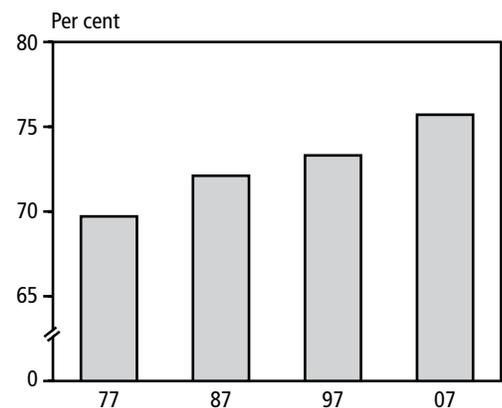
Manitoba's geographic location has been an important element in developing a diverse economy. Since Manitoba is located at the centre of Canada, it has become a manufacturing and wholesale distribution centre for Ontario, Western provinces and the North. To the south, the mid-continental trade corridor has opened opportunities to promote economic development and trade with the United States and Mexico. To the north, the Port of Churchill has opened up a gateway linking the economy of central North America to key European, Mediterranean and African destinations.

Manitoba's economic stability is also rooted in its relatively large service sector. The service sector tends to be more stable through the business cycle relative to the goods-producing sector. In the last four years, no service industry in Manitoba has posted a real decline. Important service sector industries in Manitoba include wholesale and retail trade, finance, insurance and real estate, transportation and warehousing, health care, and education. These industries have expanded to account for approximately 72.4% of the total economy, higher than the Canadian average of 68.6%. The service sector accounts for three quarters of all jobs in the province (see Chart 44).

Manitoba also has a notable cost advantage over other provinces and U.S. states. Living costs in Manitoba are among the most affordable in Canada, with house prices, auto insurance, electricity, university and college tuition fees all among the lowest in Canada. The cost of starting a manufacturing plant is lower in Manitoba than the average for other jurisdictions, primarily because of the lower cost of land and construction costs.

Workforce development is essential for a growing and vibrant knowledge-based industrial setting. The province has a strong commitment to developing a world-class labour force. The co-operative education tax credit, tuition fee tax rebate, apprentice programs, technical vocational initiatives, industry training partnership, and Manitoba bursary and scholarship programs all support growth in a knowledge-based economy by promoting the development of skills necessary for the growth in new sectors.

Chart 44
**Manitoba Service Industries
Share of Total Employment**



Source: Statistics Canada

“Manitoba’s economy is highly diversified, which adds stability and lessens the volatility associated with economic cycles.”

Moody’s Investors Service
November 2007

Research and innovation continue to play a major role by supporting new industries that further promote the diversification of Manitoba’s economy. Significant research and development is taking place in medical and pharmaceutical sectors, business and information technology services, and the agri-food sector.

In a shared alliance between university and industry to broaden the province’s research and development capacity and its commercial base, the SMARTpark Development Corporation was created at the University of Manitoba. SMARTpark is involved in diverse research areas including information and communications technology, engineering and advanced materials, health and biotechnology, and agricultural and nutritional sciences. SMARTpark is well suited to forge a bridge between research and development and manufacturing for start-up venture capital. For example, Cangene Corporation provides biopharmaceutical research and development services, bulk product manufacturing and finished product manufacturing. SMARTpark facilitates the transformation from innovation to product manufacturing to sales. Participating companies increase diversification and stability of Manitoba’s manufacturing sector.

Manitoba has developed a dynamic hub for the manufacture of transportation equipment. The province manufactures both intercity and transit buses, aerospace equipment and parts, farm equipment and rail equipment. With gasoline and diesel prices remaining resiliently high, the demand for New Flyer Industries’ energy-efficient hybrid transit buses has sharply risen. Manitoba is also Canada’s third-largest centre for the manufacture of aerospace equipment with Boeing Canada, Bristol Aerospace, Standard Aero and Air Canada Technical Services all located in Winnipeg.

The agriculture sector in Manitoba has continued to adapt to changing market conditions and technology. The sector is evenly distributed between crop and livestock production. However, the sector may be poised for a significant change if high crop prices are sustained. High prices will advance research and development in new agricultural technology. Manitoba is well positioned to take advantage of these developments as several agricultural research institutions and organizations are located in the province, including Richardson Centre for Functional Foods and Nutraceuticals, Cereal Research Centre and the Food Development Centre. Manitoba is also home to the Canadian headquarters of Monsanto, an agricultural company that uses the tools of modern biotechnology to make seeds easier to grow.

Finance, insurance and real estate sectors are evenly divided between finance and insurance industries and real estate industries. The finance and insurance sector presence in Manitoba is highlighted by the national head offices of Investors Group, the largest mutual fund distributor in Canada, Great West

Life Assurance Company, the largest insurance provider in Canada, and National Leasing Group Incorporated, the largest independent Canadian leasing company.

The gradual expansion of value-added production in the province can be best illustrated by the change in the shares of exports among major industries. In particular, manufacturing, which accounted for about 57% of Manitoba's foreign merchandise exports in 1996, has now increased to over 70%. New product lines in areas such as furniture, prepared meats, potato products, industrial chemicals (ethanol), plastic products, biopharmaceuticals, printing and publishing goods and energy-efficient transit buses have increased dramatically. This continual broadening and renewal of Manitoba's economic base offers the prospect for continued stability and certainty for Manitobans in the future.

Manitoba's pattern of external trade also lends itself towards economic stability. Manitoba is the most export-oriented province in Canada. As indicated on Chart 45, total exports account for 63% of the Manitoba economy, ahead of the national average of 60%. Moreover, these exports are evenly split between international and interprovincial destinations, roughly a 1:1 ratio. This split is the most balanced among provinces (see Chart 46). In contrast, the average provincial ratio is skewed toward international exports with a 3:2 ratio. Manitoba's balance between interprovincial and international exports provides a measure of stability during international currency and financial market shocks and regional disparities in growth. It reduces Manitoba's exposure to sharp changes to external sales.

Industrial diversity has provided Manitoba with long-term resilience and protection against a downturn in any given industry. Diversity has reduced the vulnerability from economic shocks and the corresponding volatility in the labour market as workers may switch from declining sectors to expanding ones. A stable economic environment minimizes the risk premium businesses incur for long-term planning. Venture capital and research and development opportunities can be planned well in advance. Businesses can confidently recruit from the labour market when production increases.

The merits of a diversified economic structure are clear: it provides a stabilizing mechanism during challenging economic conditions, an opportunity to expand into development of new goods and services, and a chance to explore new domestic and global markets.

Chart 45
Ratio of Exports to Gross Domestic Product, Canada and Manitoba, 2006

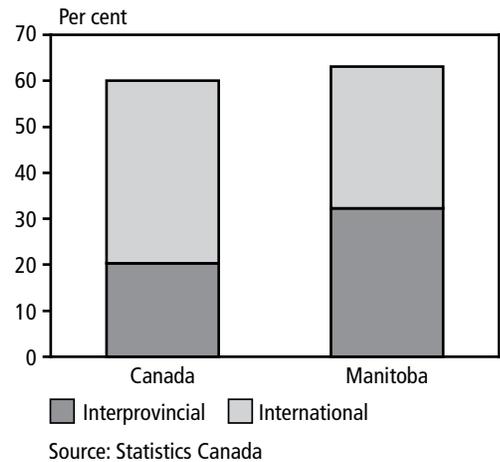
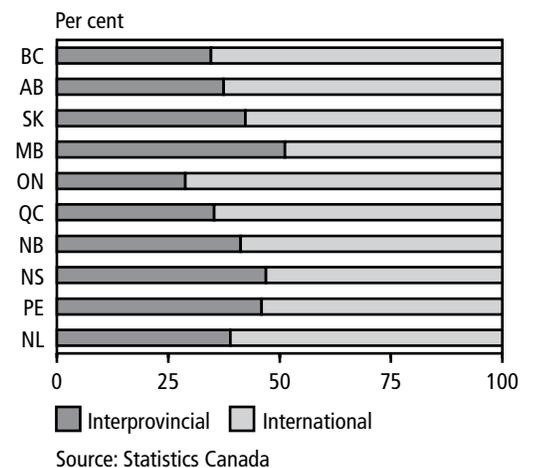


Chart 46
Ratio of Interprovincial to International Exports, By Province, 2006



MANITOBA ECONOMIC STATISTICS, 2003 TO 2007

	2003	2004	2005	2006	2007
	Millions of Dollars				
SECTORS					
Farm Cash Receipts	3,606	3,876	3,788	3,675	4,338
Crops	1,700	1,805	1,284	1,289	2,205
Livestock	1,598	1,642	1,805	1,760	1,720
Direct Payments	308	430	699	626	413
Manufacturing Shipments	12,696	13,383	13,826	14,972	16,185
Mining	1,050	1,406	1,576	2,619	3,069
Electric Power Sales	1,282	1,435	1,797	1,697	1,667
Export Sales	380	488	818	702	613
Housing Starts (no. of units)	4,206	4,440	4,731	5,028	5,738
Retail Trade	10,953	11,692	12,381	12,938	14,160
FOREIGN EXPORTS					
Total Exports	9,194	9,297	9,213	10,185	11,532
U.S.	6,986	6,859	7,005	7,801	8,273
GROSS DOMESTIC PRODUCT					
Nominal	37,354	39,671	41,372	44,671	47,832
Real	36,804	37,706	38,753	40,019	41,224
BASE RATE WAGE SETTLEMENTS (%)					
Public	3.0	3.2	3.0	2.6	2.9
Private	0.6	1.6	2.5	2.9	4.0
Total	2.7	2.6	2.9	2.6	3.0
INVESTMENT					
Total	6,163	6,699	6,836	7,837	9,152
Private	4,721	5,082	5,091	5,811	6,365
Public	1,442	1,617	1,745	2,027	2,787
Non-residential	4,906	5,181	5,201	6,042	7,157
Housing	1,257	1,518	1,635	1,796	1,996
POPULATION					
July 1 (000's)	1,162	1,171	1,174	1,179	1,187
LABOUR MARKET					
Labour Force (000's)	600.3	608.9	609.4	613.5	623.9
Employment (000's)	570.3	576.6	580.3	587.0	596.5
Participation Rate (%)	68.7	69.1	68.6	68.8	69.4
Unemployment Rate (%)	5.0	5.3	4.8	4.3	4.4
CONSUMER PRICE INDEX					
(Index, 2002 = 100)	101.8	103.8	106.6	108.7	110.9
BANKRUPTCIES					
Business	243	178	149	160	102
Farm	28	27	26	36	28
Personal	2,609	2,339	2,507	2,254	2,040

2003	2004	2005	2006	2007
(Annual Percentage Change)				
-6.3	7.5	-2.3	-3.0	18.0
-11.1	6.1	-28.8	0.3	71.1
-6.9	2.7	10.0	-2.5	-2.3
40.7	39.6	62.4	-10.4	-34.1
7.4	5.4	3.3	8.3	8.1
4.5	34.0	12.1	66.1	17.2
-5.8	11.9	25.2	-5.5	-1.8
-19.4	28.3	67.5	-14.1	-12.6
16.3	5.6	6.6	6.3	14.1
3.6	6.7	5.9	4.5	9.4
-2.2	1.1	-0.9	10.6	13.2
-8.1	-1.8	2.1	11.4	6.0
2.3	6.2	4.3	8.0	7.1
0.8	2.5	2.8	3.3	3.0
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
2.5	8.7	2.1	14.6	16.8
1.5	7.7	0.2	14.1	9.5
5.8	12.1	7.9	16.2	37.5
0.7	5.6	0.4	16.2	18.5
10.5	20.8	7.8	9.8	11.2
0.5	0.7	0.3	0.4	0.7
0.4	1.4	0.1	0.7	1.7
0.5	1.1	0.6	1.2	1.6
-	-	-	-	-
-	-	-	-	-
1.8	2.0	2.7	2.0	2.0
-2.4	-26.7	-16.3	7.4	-36.3
-31.7	-3.6	-3.7	38.5	-22.2
7.1	-10.3	7.2	-10.1	-9.5

SECTORS

Farm Cash Receipts
Crops
Livestock
Direct Payments
Manufacturing Shipments
Mining
Electric Power Sales
Export Sales
Housing Starts (no. of units)
Retail Trade

FOREIGN EXPORTS

Total Exports
U.S.

GROSS DOMESTIC PRODUCT

Nominal
Real

BASE RATE WAGE SETTLEMENTS (%)

Public
Private
Total

INVESTMENT

Total
Private
Public
Non-residential
Housing

POPULATION

July 1 (000's)

LABOUR MARKET

Labour Force (000's)
Employment (000's)
Participation Rate (%)
Unemployment Rate (%)

CONSUMER PRICE INDEX

(Index, 2002 = 100)

BANKRUPTCIES

Business
Farm
Personal

