

Manitoba: 2018–19 Outlook

EVOLVING DIVERSIFICATION SUPPORTS SOLID, BUT EASING GROWTH

- In line with our national forecast, Manitoba's growth is expected to moderate during 2018–19 (chart 1) with slower household spending a key factor.
- Industrial restructuring is reshaping Manitoba's diversification. Transitions include the forecast downsizing in metals mining as manufacturing broadens.

Despite the ongoing recovery in global commodity prices, the outlook for Manitoba's resource sector is mixed. Metal mining output is expected to trend lower, weighing on provincial employment and exports. In Thompson, operations were suspended at the Birchtree nickel mine in late 2017, though ongoing maintenance will facilitate reopening if conditions become favourable. In the latter half of 2018, the Reed copper mine will be shuttered and nickel smelting & refining operations will be halted. In 2020, a mine closure is anticipated in Flin Flon. For Manitoba's oil production, however, a recovery continues, with wells drilled climbing threefold in 2017, though this is just 44% of their 2010–15 average.

Adding to northern Manitoba's uncertain outlook is our forecast of forest product output remaining historically low, and shipping stalled from Churchill. The federal government has provided assistance for Churchill residents as opportunities to resume shipping are pursued.

With its deficit reduction plan accelerated, provincial government operating spending, after inflation, is expected to pose an increasing drag on real GDP growth through 2019. Manitoba Hydro also is streamlining. The Province's goals of improving key services and rebuilding the economy are spurring a partial rebound in strategic infrastructure after last year's shortfall from *Budget*, prioritized by return on investment, with five new schools a key focus (Manitoba Budget [here](#)).

Increases in real household expenditure are forecast to drop below 2% this year and next following the 2017 cyclical peak in growth approaching 2½%. A key contributor to a less buoyant consumer is the forecast slowing in job creation following a 1.7% advance last year, the best result since 2002, which powered a 7.8% retail sales gain, the steepest increase since 2007. We foresee total job creation easing to 0.7% in 2018 and 0.6% in 2019 (table, p.2). Employment growth already is cooling to a more sustainable pace, up 0.6% y/y through April.

The downside on consumption growth is limited by: personal income tax relief via *Basic Personal Amount* increases offering some offset to the proposed 25% Carbon Tax; and, healthy population gains with 1.6% advances in both 2016 and 2017. Manitoba is well positioned for Canada's rising immigration targets through 2020 given its successful track record on newcomer absorption. Immigrants to Manitoba have fared better in the labour market than newcomers to other provinces (chart 2). A relatively young demographic structure provides additional support to population growth: Manitoba's rate of natural increase in 2017 is nearly double the national average and the province's median age has fallen in each of the last two years.

CONTACTS

Marc Desormeaux
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Mary Webb
416.866.4202
Scotiabank Economics
mary.webb@scotiabank.com

Chart 1

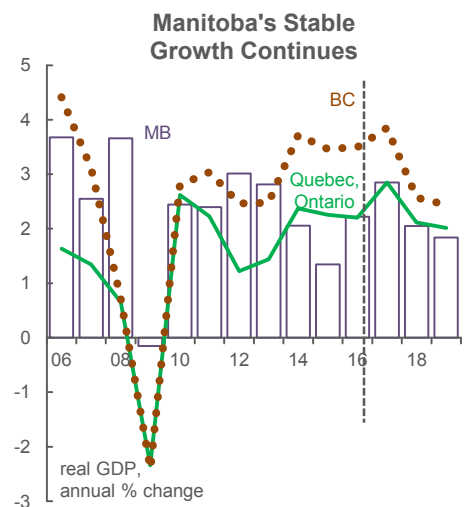
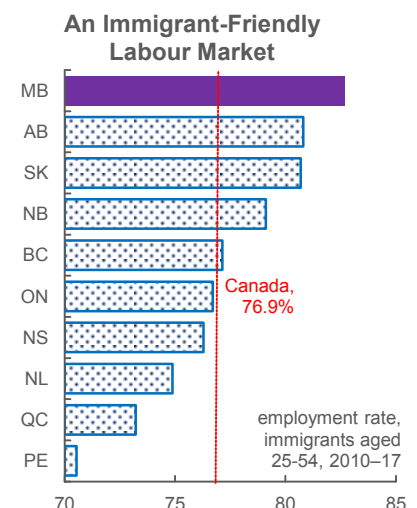


Chart 2



Sources for charts: Scotiabank Economics, Statistics Canada.

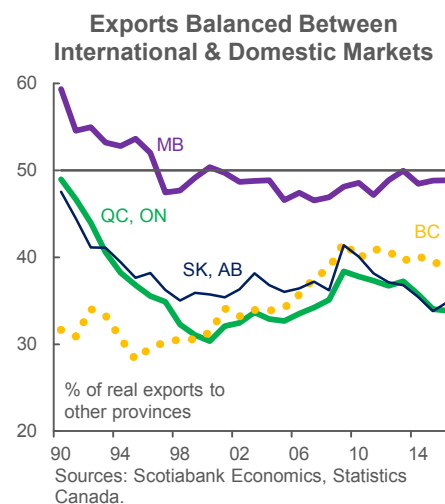
For the housing sector, steeper interest rates and tightening regulation underlie the anticipated slowing in 2018–19, after starts in Winnipeg reached a 30-year high. In 2017, housing activity was boosted by the race to obtain building permits for new homes before Winnipeg's May 1st introduction of an Impact Fee¹, and a deadline to begin construction of these homes by year-end. This year and next, we look for Winnipeg's housing starts, which accounted for about two-thirds of provincial starts over 2010–17, to return to a more sustainable level. Manitoba's ample and diverse residential stock also should be able to absorb the anticipated influx of immigrants. We therefore expect increases in housing prices and rents in the 3%–4% range, slightly below the 2010–17 annual average, with vacancy rates for purpose-built apartments remaining near 3%, consistent with a balanced market.

Business investment is expected to provide a smaller incremental boost to economic growth this year and next due to waning major project activity. The Bipole III transmission line project, with estimated capital costs in the order of \$5 billion, is expected to conclude in 2018. Construction continues on the \$8.7 billion, 695 MW Keeyask hydroelectric generating station, with completion expected in 2021.

A number of mid-sized projects will support capital outlays. Work continues through the forecast period on a \$233 million Women's Hospital, two mixed-use developments with combined construction costs of \$565 million, and a five-year, \$1 billion broadband infrastructure investment. Also boosting capital spending over the next 18 months is the Line 3 pipeline replacement and possibly the \$453 million Manitoba-Minnesota transmission line, though approvals are currently delayed. This latter project is expected to lift the province's power export capacity by over one-third.

Real export growth over 2018–19 is forecast to quicken to about 2¼% annually after estimated gains in the 1¼% range last year. Accelerating US growth and a Canadian dollar forecast to trade near 80¢(US) during the next two years should anchor volume gains in international exports across a range of industries. Manitoba has the greatest balance between external and domestic markets of any province, with interprovincial shipments making up 49% of its 2012–16 real exports (chart 3). Looking forward, the recovery in Alberta's and Saskatchewan's economies plus capacity pressures in Central Canada bode well for Manitoba's interprovincial export growth. New opportunities also are presented by the *Canadian Free Trade Agreement* and the implementation of Manitoba's recent decision to join the other western provinces in the *New West Partnership*.

Further broadening of Manitoba's manufacturing sector is expected to support exports as well as employment and capital investment over 2018–19. Winnipeg is home to Western Canada's largest pharmaceutical cluster and 60 aerospace firms. The latter industry is expected to benefit from a four-year, \$45 million engine overhaul contract for the Canadian military. A specialty truck builder will deliver 200 truck bodies to Minnesota and Manitoba's major bus maker is benefitting from a large order from British Columbia. The boost to US investment from recent tax reform is expected to bolster Manitoba's machinery shipments which accounted for 8.2% of provincial export receipts from 2013 to 2017. Through March 2018, these shipments are up 9.9% y/y.

Chart 3


Manitoba Profile, 2017

Population, July 1	1.4 mn (3.6% of Cda)
annual % change	1.6
Real GDP, 2007\$	62.2 bn (3.4% of Cda)
Per capita nom. GDP, \$000	52.9 (91% of Cdn. avg.)

Economic Outlook

	2010-16	16	17e	18f	19f
	annual % change except where noted				
Manitoba					
Real GDP	2.3	2.2	2.9	2.0	1.8
Nominal GDP	4.4	2.3	4.3	4.3	4.0
Employment	0.9	-0.4	1.7	0.7	0.6
Unemployment Rate, %	5.1	6.1	5.4	5.3	5.2
Housing Starts, 000s	5.1	5.3	7.5	6.3	6.3
Canada					
Real GDP	2.1	1.4	3.0	2.2	2.1
Employment	1.3	0.7	1.9	1.3	1.0

Governance

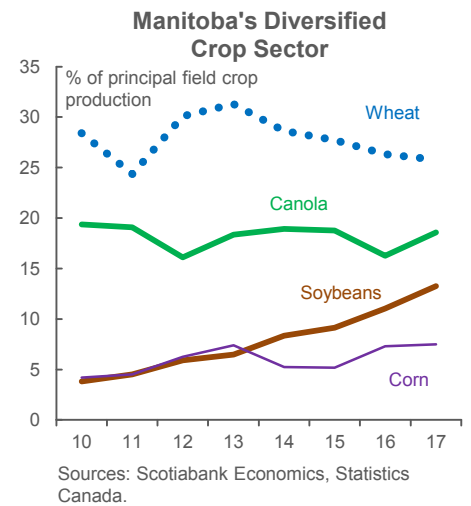
Premier	Brian Pallister, Progressive Conservative (as of 2016)
Legislature	39 of 57 seats
Next Election	October 2020
Credit ratings:	
Moody's	Aa2
S&P	A+
DBRS	A(high)

Sources for Tables: Scotiabank Economics, Statistics Canada, Manitoba Legislature, Ratings agencies.

¹ Levy on residential developments in the Winnipeg area to help finance infrastructure. More information [here](#).

For Manitoba's agri-food complex, value-added will be raised by a \$460 million potato processing plant expansion and the \$400 million construction of a pea processing plant in Portage la Prairie over the next year. As well, a \$176 million pork processing facility upgrade was completed in April.

For agriculture exports, wheat remains a pillar following a 13% increase in seeded acreage reported this spring after a 4% rise in output last year, with further strength expected in canola, soybeans and livestock. Last year's 27% gain in soybean yields resulted in a sixth consecutive record year of production (chart 4). Initial seeding and export receipt data suggest some moderation of production this year, but the crop's greater role is auspicious in the increasingly competitive global wheat export market. After eight years of rebuilding, the hog inventory in Manitoba reached record levels in 2017, only slightly behind Ontario. Also encouraging is the turnaround in the number of beef cattle in Manitoba with the implementation of its *Livestock Growth Strategy*.

Chart 4


This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.