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.

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Chart 1

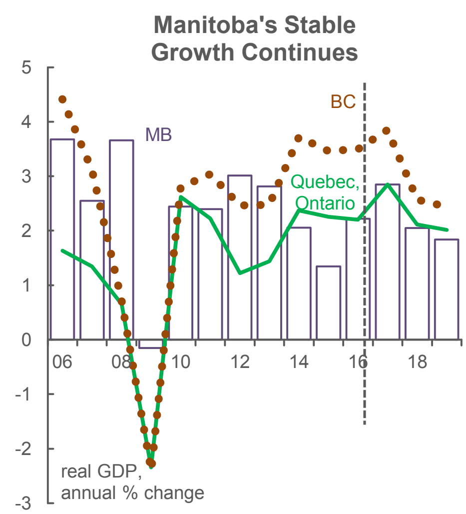
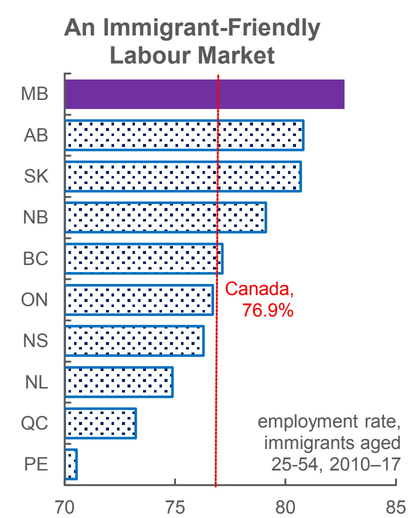


Chart 2



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 Fee[1], 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.

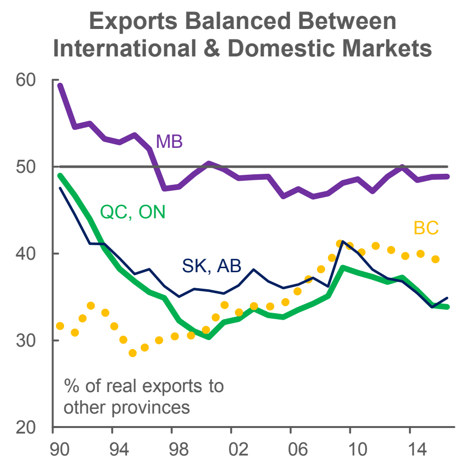
Business investment is expected to provide a smaller incremental boost to economic growth this year and next due to waning major project activity. The Bipole III transmission line project, with estimated capital costs in the order of $5 billion, is expected to conclude in 2018. Construction continues 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 1¾% 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



Sources: Scotiabank Economics, Statistics Canada.

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)

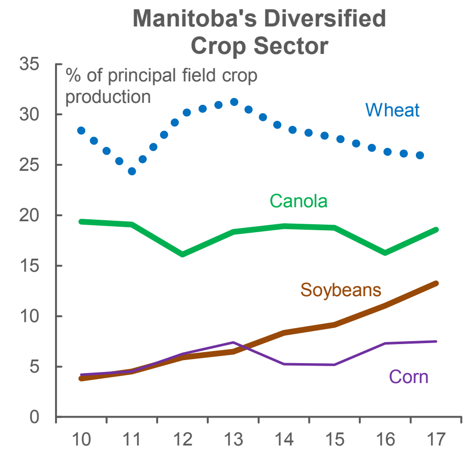
Sources for Tables: Scotiabank Economics, Statistics Canada, Manitoba Legislature, Ratings agencies.

[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



Sources: Scotiabank Economics, Statistics Canada.