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# FAST FACTS

September 13, 2007

## State of the Manitoba Economy 2007: Challenges and Opportunities

**T**he CCPA's *Report on the Manitoba Economy, 2007*, by U of Manitoba's Fletcher Baragar finds that overall, Manitoba's economy is performing well. Baragar provides a balanced and informed prognosis, always keeping in mind that our economy remains subject to larger regional, national and global economic events. These events provide both challenges to and opportunities for Manitoba's workers and companies.

The booming Alberta economy is the most significant regional factor affecting Manitoba. As Alberta's labour market tightens and wages increase, more Manitoba workers are enticed into making the move west. The net outflow of labour (somewhat offset by the increase in international migration to Manitoba) has also caused Manitoba's labour market to tighten, however the attendant increase in wages one would expect is only starting to occur. Workers are drawn to Alberta by the high wages, and won't stop leaving our province until wages become more attractive here. On the other hand, the much higher cost of living in Alberta, especially regarding housing, effectively lowers wages there. There is strong anecdotal evidence (CBC Morning Show, August 17) that some Manitobans are beginning to return home, citing high costs and poor quality of life in Alberta as reasons to leave.

One of the most troubling consequences of Alberta's boom is the invidious comparisons it invites between the two economies. Critics fail to point out that the low taxes in Alberta, maintained at the same time as heavy public spending in infrastructure,

are feasible because of the billions of dollars in oil royalties swelling Alberta's public purse. Manitoba's naysayers rarely, if ever, link Alberta's fortunes to the happenstance of its exclusive access to a natural resource made valuable by purely exogenous forces.

On the positive side, Manitoba is relatively close to Alberta and our proximity makes transportation to and from this province more affordable compared to other regions. It is even possible that firms in Alberta will decide to relocate to lower-cost Manitoba; Palliser Furniture, for example, is moving its manufacturing facility from Airdrie, Alberta to Manitoba. The August 21 *Winnipeg Free Press* notes that Winnipeg's Empire Industries is looking to "take advantage of the ongoing construction boom in Western Canada", and cites Winnipeg's lower operating costs as the reason it is thinking of expanding in Winnipeg.

Economic growth in Alberta is so significant that it is affecting the national economy. For example, the increase in the price of oil causes the Alberta economy to grow, but it also causes the value of the \$C to increase. The pace of growth in Alberta is causing shortages and price increases in building supplies, leading to fears that Alberta's higher inflation could spread. When inflation threatens, the Bank of Canada begins to raise interest rates, dampening investment and consumer spending. Higher interest rates send the \$C higher yet, and when the \$C challenges the \$US, Manitoba's exports decrease relative to imports. Although Manitoba's international and inter-provincial exports have more than doubled in real value over the past 2 decades, our trade deficit



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has grown sharply since 2002, when the \$C began to appreciate. This appreciation hits manufacturers and commodity producers in two ways: a stronger \$C means Manitoba's products are more expensive in the US (our largest export market), so sales decrease. Secondly, commodities such as wheat are sold on the world market in \$US. Although volumes may not decrease (they may even increase), when profits are converted, fewer \$C are received.

On the other hand, consumers wishing to buy imports see their purchasing power increase. A strong \$C means that businesses wishing to upgrade their capital holdings can do so at lower prices; in fact, business investment has been a major driving force of the Manitoba economy in the last couple of years. Increases in fixed capital formation provide a direct link to improvements in productive capacity, labour productivity and cost competitiveness. Improvement in these factors should help offset the negative effects of the high \$C. Investment is expected to taper off in 2007 as businesses consolidate and utilize the upgrades in equipment and increases in capacity that resulted from the higher investment rates in preceding years. Recent increases in interest rates will likely dampen investment as well.

Globally, the tremendous economic growth in China and India, combined with instability in the Middle East, contributed to the sharp increase in the price of oil. Manitoba is a net importer of mineral-based energy products, especially oil and natural gas. Our inter-provincial trade balance has deteriorated dramatically as the price of oil and natural gas has gone up. Manitoba's consumption of these commodities has not changed significantly, but the sharp increase in prices has caused our oil and gas bill to increase \$600million between 2000 and 2005. High petroleum costs also lower net farm income by increasing the cost of fuel and fertilizers. On the other side of the balance sheet, the torrid growth of India's and China's economies has dramatically increased demand for Manitoba's minerals, causing growth in exploration and development. 2006 was a record year for the value of the industry's output. Copper production rose

54.3% in 2006, gold by 20.4%. Soaring nickel prices have also boosted plans by Crowflight Minerals Inc. to develop a new mine close to Thompson. Other global events that affect our economy are crop yields in other countries, demand for electricity in the US and the state of the US economy. All of these factors, however, could be eclipsed by the changes and challenges associated with climate change and other environmental concerns.

2007 will likely be a good year for the Manitoba economy. Real economic growth is strong, employment levels are high and there is finally some evidence of wage increases. Government finances have improved, allowing for debt reduction, balanced budgets and much needed increases in public infrastructure. However, these gains are tempered by the slow growth of real wages and the high poverty rate (as of 2005, 12.6% of our population were in families with after-tax incomes below the poverty line). Increases in real family income over the last 10 years have not reduced income inequality, and unemployment and poverty rates for Manitoba's Aboriginal Peoples remain distressingly high. Although consumption spending is robust, many Manitobans are accumulating worrying levels of debt.

Whereas effective policy to ameliorate poverty and its attendant problems can be crafted in house, we are unable to affect world prices, wars, weather conditions or the economic policies of other countries or provinces. Manitoba is in a largely reactive position, something that some analysts fail to acknowledge. The challenge is to be prepared for downturns in the regional, national and/or global economies. Meeting this challenge and ensuring that economic gains are shared by all Manitobans, while simultaneously avoiding further environmental degradation, should define any economic policy agenda.

- Lynne Fernandez

*Lynne Fernandez is a CCPA-Manitoba Research Associate. This is a summary of Report on the Manitoba Economy, 2007, by Fletcher Baragar. Full copies of the report are available on our web site.*



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