



MANITOBA - Commodity boom and pandemic support drive the recovery

The severity of the third wave in Manitoba was a setback for the provincial economy. It led to further restrictions and delayed the reopening process initiated in other provinces. The good news is new COVID-19 cases have crested mid-May as vaccination campaigns hit their stride. As more progress takes place, Manitoba will be in a position to announce its own reopening plan. And once that process gets underway, we expect any ground lost will be made up rather quickly over the remainder of this year. In fact, we project Manitoba's economy will fully recover from the COVID recession this year, with growth of 6.1%. We see strong global demand for goods—including commodities—and supportive provincial stimulus playing key roles this year.

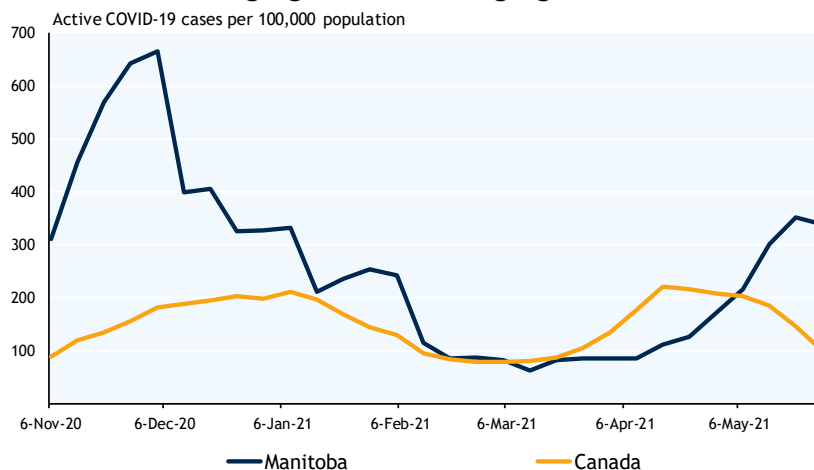
The majority of provincial manufacturers have been busy through most of the pandemic. Their sales, in aggregate, are running 13% above pre-pandemic levels. Food product producers, in particular, have been riding high, with more upside coming from a new pea-processing plant ramping up production this summer. The agricultural sector is also on an upswing. Canola and pork exports are up materially. Canola is coming off of lows that resulted from China's ban on Canadian canola. Pork producers are benefiting from China's earlier swine fever outbreak. One potential area of concern, though, is this year's crop. While prices are up (e.g. wheat prices are 27% higher than a year ago), severe drought conditions this season have hindered plantings and may impact crop yields.

Transportation equipment manufacturing bucked the trend. Sales in this industry declined markedly, as bus deliveries diminished alongside lower transit ridership in major urban centres. We believe the rapid reopening of the U.S. economy bodes well for an eventual rebound.

Manitoba's housing market set successive records since last summer. Home resales were especially strong in the first quarter of this year (up 53% above year-ago levels), as were prices (up 12% in Winnipeg). We expect activity to moderate later this year though remain solid historically. Strong housing demand will keep home builders extremely active. We project housing starts to reach a 34-year high (7,800 units) in 2021. Things look quieter for non-residential construction. The winding down of work on a major pea-processing plant will remove a catalyst for activity. Statistics Canada's Capex survey shows businesses plan to spend about the same on capital investment this year as they did last year.

The provincial government, however, is set to provide substantial support and stimulus to the economy. Manitoba has the highest per capita level of pandemic-related spending (more than \$3,000/person over two years) among the provinces. A sizeable 21% of this expenditure is earmarked for capital programs (including infrastructure), which usually has a stronger multiplier effect on the economy. It may also result in higher productive capacity down the road.

Manitoba emerging from challenging 2nd and 3rd waves



Source: Johns Hopkins University, RBC Economics

Manitoba forecast at a glance

% change unless otherwise specified

	2018	2019	2020F	2021F	2022F
Real GDP	1.5	0.6	-4.8	6.1	3.8
Nominal GDP	2.5	1.0	-3.1	10.1	5.8
Employment	1.1	1.0	-3.7	4.1	1.6
Unemployment Rate (%)	6.0	5.3	8.0	6.8	5.9
Retail Sales	2.2	0.8	0.1	9.9	1.2
Housing Starts (Thousands of Units)	7.4	6.9	7.3	7.8	6.2
Consumer Price Index	2.5	2.3	0.5	2.2	2.2