MANITOBA - Steady as she goes

After a weak end to 2018, things are looking more upbeat - particularly in the labour market.

Manitoba’s economy expanded 1.3% in 2018 as a consequence of lower mining output and weather related crop production weakness. While mining activity will continue to be subdued in 2019, strong labour markets and work on some private capital investment projects should accelerate growth slightly to 1.5%. 2020 will see GDP grow at 1.6%.

After a strong rise in exports last year of 12%, numbers were pretty much flat so far in Q1 2019. Digging deeper, while exports to the U.S. increased 7.8% in 2019, non-US exports declined. While there has been a lot of protectionist sentiment in the recent past, we see the outlook for exports to be positive as some trade restrictions have been lifted. The potential ratification of the CUSMA (NAFTA replacement) could further develop bilateral US-Canada trade relations. Additionally, the CPTPP coming into force this year will support Manitoba in diversifying its export markets.

Job creation has been strong in Manitoba in the first quarter of 2019, with employment rising 1.8% from a year ago. Goods sector employment has bounced back to a new high, led by a surge in manufacturing jobs and record high construction employment. The unemployment rate fell to 5.3% year-to-date through April from 6% in the same period last year. Wage growth was still modest at 2.5% in the first quarter of 2019 but above the Canadian average of 2.0%.

Consumer spending hasn’t seen big gain. After growing 2.9% in 2018, retail sales in the first quarter of 2019 saw an increase of just 0.7% from a year prior. In the recent budget, the provincial government introduced a measure that will see a reduction of the Retail Sales Tax rate from 8% to 7%. The tax cut, slated to begin on July 1st 2019, should provide some support to retail sales growth in the latter half of the year.

Capital expenditures are set to decline overall. Most of the drop in spending is concentrated in the utilities sector with winding down of the BiPole III project. Private sector spending, on the other hand, will increase by 4.5%. Work on some capital projects will ramp up this year – including construction on the largest pea processing plant in the world which is slated to open for production in Q4 2020, as well as an extension to a potato processing plant that will begin production in the fall of 2019. Non-residential construction investment has also seen strength (6.5%), mainly from building of industrial and commercial structures.

Crop receipts declined in 2018 due to lower commodity prices as well as bad weather affecting output. This year is also off to a slow start amidst dry conditions, with farm cash receipts declining 5.4% in Q1 2019. We see scope for a turnaround if weather conditions improve.