

Rebound in agriculture expected to support growth in 2012

Growth in Manitoba is projected to be 3.4% this year and 3.0% in 2013, which would be up from the 2.6% increase estimated for 2011. The rebound in growth this year, which was revised up slightly from 3.2% last quarter, largely reflects the assumption that an improvement in growing conditions, including the reversal of current dry soil conditions, will allow the agriculture sector to swing to a rise of almost 19% this year from an expected 15% decline in 2011. We assume that the persistence of normal weather conditions will allow agricultural production to continue to rebound in 2013 although the pace is expected to moderate to 5%. This moderation is a key factor contributing to overall GDP growth in the province moving lower in 2013.

Surveys suggest greater than expected strength in capital spending

The slight upward revision to growth this year is the result of the recently released Statistics Canada survey of capital spending intentions. It indicated an unexpected pickup in capital expenditure growth to 4.7% in 2012 from the 1.5% estimated for 2011. This is not a particularly strong pace of growth for 2012 and pales in comparison to the 15.7% gain recorded in 2010 in the wake of spending on a number of major projects such as the expansion of the Red River floodway and the new Winnipeg International Airport. The risk to this increase, however, may be on the upside because this survey often underestimates actual spending during periods of overall economic growth. On an industry basis, the projected increase in capital expenditures reflects gains in both the mining and manufacturing sectors. These increases are expected to offset another year of reduced spending by utilities that largely reflect moderating investment activity by Manitoba Hydro. In the wake of these survey numbers, we raised our forecast for construction sector spending to show a gain of 3% rather than holding the rate unchanged from the 1.5% expected for 2011.

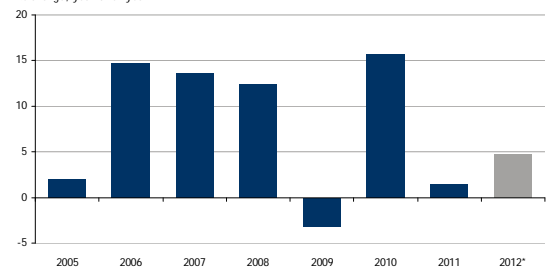
Moderation in manufacturing anticipated to be temporary

In terms of recent economic reports for Manitoba, there has been some moderation in manufacturing activity late in 2011. This may reflect in part a rise in concern about a sustained recovery both globally and in the United States in the face of financial market pressures related to the European sovereign-debt issue. These pressures have started to ease early in 2012 in the face of aggressive policy actions by European policymakers. This and our expectation of a rebound in U.S. growth and strong investment spending in provinces west of Manitoba are expected to result in manufacturing activity in the province rebounding as we move through 2012.

Greater strength in employment expected

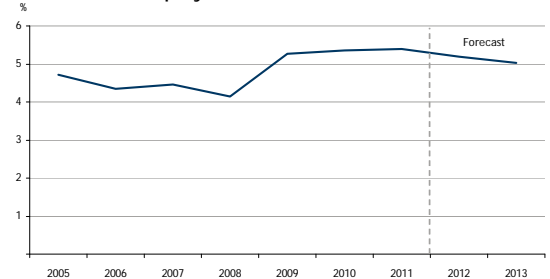
Employment growth also has shown some moderation last year, slowing to 0.8% from 1.9% in 2010; however, the pickup in capital spending and strengthening demand for Manitoba-produced manufacturing goods are both expected to help send the hiring trajectory back up through the forecast. This should contribute to an improvement in the unemployment rate, which we project to ease to 5.2% and 5.0% this year and next, respectively, after remaining unchanged in 2011 at 5.4%.

Manitoba growth in capital spending
% change, year-over-year



Source: Statistics Canada, RBC Economics Research
*intentions.

Manitoba unemployment rate
%



Source: Statistics Canada, RBC Economics Research

Manitoba forecast at a glance

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	2.4	2.6	3.4	3.0
Employment	1.9	0.8	0.9	1.3
Unemployment rate (%)	5.4	5.4	5.2	5.0
Retail sales	5.6	4.6	5.0	4.7
Housing starts (units)	5,888	5,900	6,100	5,800
Consumer price index	0.8	2.9	1.9	2.1

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