

SASKATCHEWAN

INDUSTRIAL INTELLIGENCE REPORT

OVERVIEW

The Saskatchewan economy is expected to register modest growth in 1993, based on strong growth in mining and manufacturing and an expected recovery from below-average agricultural production achieved in 1992.

The Conference Board of Canada's Summer 1993 Provincial Outlook reports a real GDP growth forecast for the province of 1.7% for 1993 followed by 2.3% for 1994. This would place Saskatchewan's real GDP growth behind national growth over the next couple of years, but ahead of the maritime provinces, at least in 1993.

INDICATORS

The population of Saskatchewan has been declining steadily since 1987. However, recent announcements state the province once again exceeds one million persons, but not necessarily as a result of natural increase or in-migration. In addition, Statistics Canada has announced that the estimated 1993 population has declined from 1992. These otherwise contradictory statements are rooted in a Statistics Canada decision that persons who were missed in the 1991 census will now be taken into account. Estimates released in September 1993, which incorporate this adjustment place Saskatchewan's current population at 1,003,100. The provincial

government is hoping to see federal transfer payments adjusted accordingly.

Saskatchewan continues to record Canada's lowest unemployment rate, standing at 7.6% in August, a slight improvement from 8.0% registered in August 1992. The improvement is based on a slight increase in the total number of persons employed. The actual number of persons in the labour force is unchanged from one year ago.



Revised private and public capital investment intentions for 1993 have been issued. Based on this revised data, spending in the province will decline by 11% from last year, for a total of \$3.6 billion. This reflects completion of the Husky Bi-Provincial Heavy Oil Upgrader at Lloydminster. There are presently no major

projects underway in the province.

Statistics released by the Canadian Real Estate Association reveal Regina and Saskatoon are managing to sustain high levels of residential sales activity. Out of 25 major market areas the two cities had the second and third highest rates of sales increases in July over July 1992. Saskatchewan also reported a 1.1% increase in department store sales in July compared with a 3.0% decline across Canada.

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MOOD

Positive performance measures provide a basis for relief only, not celebration, as they record recovery as opposed to expansion. While they support a general sense of optimism which can be detected in various sectors of the business community, serious concerns remain in rural areas and sectors dependent on agriculture. As always, the weather remains a wild card in determining the extent to which the current growing season generates hoped-for returns.

The dispute between the provincial government and Federated Cooperatives Limited (FCL) concerning efforts to reduce the total debt associated with the NewGrade Heavy Oil Upgrader in Regina has moved forward, but is not yet resolved. The dispute cast a negative shadow over Saskatchewan's investment climate as FCL had announced it was considering the relocation of its corporate headquarters from Saskatoon to Alberta in response to the provincial government's threat to enact legislation to unilaterally resolve the issue if an agreement could not be reached. The two parties are reported to have arrived at a tentative agreement in which they would each contribute \$75 million towards reducing the project's total debt. The deal would also require a \$150 million federal contribution, reducing the federal government's exposure on a \$275 million loan guarantee.

KEY SECTORS

Resources:

A combination of improved growing conditions

and a very major increase in the seeded acreage of oilseeds and specialty crops, in response to the expectation that returns to canola, flax and other specialty crops will outweigh cereals, has held promise for a rebound in 1993 crop output. Moisture levels were maintained through the growing season. However, wet fields combined with snow and/or freezing temperatures will reduce grade expectations and yield in some regions. Saskatchewan oilseed producers will enjoy premium prices due to flooding in the U.S. midwest which prevented large acreage of soybeans from being planted.

International marketing issues continue to dominate concerns in this sector. A Federal Court judge has overturned a federal cabinet order which freed farmers to sell barley to U.S. customers, and would have ended the Canadian Wheat Board's (CWB) monopoly on barley sales. An appeal is not expected to be heard until November. It has been reported that contracts made by individual producers since August 1st will be covered by the CWB.

An attempt by the United States to use its Export Enhancement Program (EEP) to challenge Canadian wheat sales in Mexico resulted in a formal GATT protest in July. The outcome of this initiative is pending.

Finally, U.S. Trade Representative Mickey Kantor has threatened to use Section 22 of the U.S. Agricultural Adjustment Act, which could impose quota barriers or tariffs on imports of Canadian durum wheat. Some analysts have speculated that this move is designed to obtain support of farm-state politicians for NAFTA.

These and other trade issues continue to be

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critical factors in determining the prospects and performance of Saskatchewan's highly trade-dependent resource-based economy.

Total real GDP growth in Saskatchewan's mining industry is expected to expand by 8.8% in 1993, lead by continuing strong activity in the mineral fuels sector, and natural gas in particular. Exploratory and developmental drilling are both up by over 140% in the first 6 months of 1993 over the same period last year. Saskatchewan gas prices on the spot market are up 53% from August of 1992 while prices to long term core markets have more than doubled. An increase in U.S. demand for natural gas underlies this activity.

The process of converting Saskatchewan from a price taker to a price setter in various international bulk resource commodity markets has taken a step forward with the acquisition by the Potash Corporation of Saskatchewan (PCS) of potash mines and inventory in New Brunswick and Saskatchewan and port facilities in New Brunswick from Rio Algom Limited. PCS is now very solidly established as the dominant producer in the market.

Cameco has reinforced its status as a dominant player in the world uranium market through a 10 year deal with KATEP, a joint stock company which has exclusive control of the uranium resources in Kazakhstan. The deal gives Cameco right of first refusal in future uranium developments in Kazakhstan while Cameco and Uranerz will act as independent agents to sell Kazakhstan uranium concentrates. This deal marks Cameco's second major venture into

central Asia - it is currently involved in a feasibility study into the Kumtor gold deposit in Kyrgystan.

Manufacturing:

The total value of Saskatchewan's manufactured shipments in the first six months of this year is estimated at \$1.9 billion. This is virtually unchanged from the same period last year having increased, in current dollars, by only 0.6%.

Food industry shipments, which account for one quarter of Saskatchewan's manufacturing output, are down by nearly 6% to just under \$.5 billion in the first six months. The decline in production is believed to be largely attributable to the as yet unresolved July 1992 strike which shutdown Western Canadian Beef Packers Ltd. in Moose Jaw. The operation had employed over 150 persons. Grain millers report reduced profits as a result of having to import gluten from U.S. sources to augment lower grades produced during the 1992 crop year.

A Saskatoon company, Canamino, has a \$7.3 million facility under construction to produce value-added products for the cosmetics industry from oats. Medical and pharmaceutical applications are also expected.

Saskatchewan's machinery industry continues to display strong performance. Shipments in the first six months of 1993 totalled over \$175 million, a 50% increase over the first six months of 1992.

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Farm machinery and equipment manufacturers, such as Flexi-Coil Ltd., Brandt Industries Ltd. and Wheatearth Hydrostatic and Machine, who have developed unique products serving domestic and export markets, continue to enjoy success. Hitachi Canada Industries Ltd., Saskatoon, is proceeding with an \$8.6 million expansion associated with the manufacture of turbine components.

The wood products industry has benefitted from increased prices over the past several months, with exports to the U.S. increasing considerably. Opportunities for international sales of value-added wood products are also beginning to be realized.

On the downside, Federal Pioneer Limited, Regina, manufacturer of electrical transformers, has announced additional layoffs, continuing a downsizing trend which began in February 1992.

Services:

Over the past 12 to 18 months numerous developments have taken place which have brought greater depth and breadth to Saskatchewan's service sector. These include the establishment in Regina of Sears Canada's telemarketing centre, the relocation of Crown Life and Farm Credit to Regina, and AECL research, design and marketing responsibilities to Saskatoon. Information technologies are a significant factor in each of these developments. The list has now been extended with the announcement by the Royal Bank that it will be locating its western Canada telephone payroll service centre in Regina.

A \$2.5 million Software Technology Centre has been established in Regina. Funding for the Centre is shared 50% by industry, the balance shared by the federal and provincial government. The Centre is to be a "bridging organization", providing various services such as awareness raising and training in software engineering, encouraging alliances with the two Saskatchewan universities and consulting services.

OBSERVATIONS

An Economic Development Authority (EDA) has been established in Saskatoon, taking over from civic officials who had previously been responsible for this function. The EDA has produced a strategy to guide development which identifies agricultural biotechnology, value-added food processing and the nuclear industry as offering the greatest growth opportunities.

A recent survey conducted in 23 cities across Canada concluded that Saskatoon members of the Canadian Federation of Independent Business (CFIB) expressed the highest frustration with taxation. Ninety-eight percent of the Saskatoon firms indicated that the highest priority concern for them was total tax burden.

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OVERVIEW

There is no strong evidence of economic recovery in Quebec. Economic activity in general has picked up, but long-awaited job creation has yet to materialize. The Quebec economy is still feeling the effects of a profound restructuring associated with market globalization.

Several factors have contributed to stagnation in consumer spending: the considerable indebtedness of Quebec households; a substantial increase in provincial income tax enacted this summer and retroactive to 1 January 1993; the continuing disappearance of large numbers of private sector jobs; and restrictive measures in the public sector, resulting in a hiring freeze as well as freezes or cutbacks in wages. In addition, the difficult economic climate and the low rate of inflation have had a limiting effect on salary increases and interest income.

On the investment side, Statistics Canada has revised downwards its private and public capital expenditure projections for the year in both Quebec (-2.1%) and Canada as a whole (-3.6%). This means that investment in construction, machinery and equipment will be less vigorous than had been anticipated at the start of the year.

In the light of consumer concerns, the anticipated weakness of activity in the construction sector for the rest of the year and

ongoing efforts to control public spending, it seems clear that recovery will be dependent on export performance in the coming months, much as it has been since the start of the year. The weakness of the Canadian dollar and the gains in productivity achieved by Quebec businesses will enable these businesses to build on the American recovery. Export-oriented manufacturing industries should continue to excel: telecommunications, automotive industries, newsprint, aerospace and aluminum.

INDICATORS



Excluding the profits recorded by the banking sector, overall Canadian business profits have declined 7%. A few months ago, a survey conducted by the newspaper *Les Affaires* indicated that the situation in Quebec was improving, but was not much different from the Canadian situation as a

whole: 1992 was characterized by the worst profit levels since the Great Depression, and slow improvement is predicted for 1993. Since the beginning of the year, the number of commercial bankruptcies and the amount of liabilities have declined 15% and 44% respectively. This is a substantial improvement, since Quebec recorded only 277 commercial bankruptcies in July 1993 by comparison with 383 in July 1992.

Unit labour costs have had very negligible effects on the inflation rate because of unfavourable employment conditions. Wage

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settlements arrived at during the first quarter of 1993 generally involved wage freezes with a percentage change of -0.1% in comparison with average increases of 1.2% and 3.2% in 1992 and 1991.

Housing starts in the first 6 months of 1993 were 16% lower than in the first half of 1992. This situation is primarily attributable to the large number of vacant existing housing units and the lack of consumer confidence in the economy. In the commercial real estate market, however, the situation is slowly improving. According to Royal LePage, the vacancy rate for downtown office space in Montreal improved from 16.9% in 1992 to 16.6% in July 1993. This trend is expected to continue as the demand for office space increases among small and medium-size tenants. The vacancy rate for buildings with three or more housing units nevertheless remains substantially higher in Quebec than it was before the recession (6.3% in April 1993 vs 4.5% in April 1989). Moreover, the vacancy rate in the province's major cities was higher than in other Canadian cities. In April 1993, this rate was 5.3% in Quebec City and 7.0% in Trois-Rivières, compared to 2.1% in Toronto, 2.0% in Vancouver and 1.8% in Ottawa. The vacancy rate in Montreal has been rising since the end of the 1981-82 recession (from 2.6% in April 1983 to 4.2% in 1989 and 6.4% in April 1993).

The help wanted index (where 1991 = 100) for Quebec was 93.0 in August 1993, compared to 82.0 in August 1992. The situation is improving, the average for the first 8 months of 1993 being up 3.5 (from 91.5 to 88.0) over the same months in the previous year. About 17,000 jobs were created during the first 6 months of the year, despite the numerous layoffs that were announced. Nevertheless,

unemployment stood at 12.9% in Quebec in August 1993, compared to the national rate of 11.3%. According to the *Conseil du Patronat du Québec*, the "real rate of unemployment," taking into account the number of social assistance recipients who are able to work, stood at 22.6% last July.

In 1992, 84% of the after-tax incomes of Quebec households went to pay debts and make transfer payments, compared to 60% in 1982. There is no way to tell, based on projected job losses, workers' job loss fears and the size of the tax burden shouldered by individual households, whether any immediate reduction can be anticipated in the indebtedness ratio of Quebec households, which increased from 18.0% to 18.4% from 1990 to 1992.

MOOD

A recent Gallup poll (August 1993) estimated that 42% of Quebecers are afraid of losing their jobs. This level of concern in Quebec is comparable to the national average and has a direct impact on consumer spending, housing starts and the retail sector.

A survey of our clients indicates that business associations and individual members of the business community are fairly optimistic about the economic situation. Fifty-three percent of respondents felt that the status of their firms had improved during the previous quarter and 57% believed that such progress would continue in autumn. Thirty-four percent stated that their status had remained stable during the last quarter and a similar proportion expected the situation to remain stable during the fall. Over 60% anticipated an increase in sales and productivity, close to 50% believed that their profits would rise and 40% expected an increase in hiring.

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The factors most-often cited in support of these impressions were the value of the Canadian dollar, export market prospects, low interest rates and the cost of labour.

KEY SECTORS

High technology

Since high-technology industries are heavily dependent on foreign markets, the gradual economic recovery in the United States will help to stimulate export growth among high-tech firms in Quebec. Worth noting, in particular, are exports to the US of equipment likely to generate increased productivity (office automation equipment and telecommunications products). During the summer, moreover, Northern Telecom scored a coup by signing major contracts with China.

Despite the labour conflict at Héroux and job cuts announced previously by some firms (Oerlikon, Pratt & Whitney), prospects are improving in the aerospace sector. This summer, Canadair received orders to produce at least 34 more Regional Jets for Air Canada and Sky West. SPAR Aerospace was appointed prime contractor for the Canadian government's RADARSAT satellite production project. Moreover, large orders placed by the Canadian Space Agency, the Department of National Defence and the US Navy will stimulate this industry during the coming months.

Resource processing and traditional industries

With new facilities having necessitated investments of over \$1 billion each, Aluminum smelters in Quebec are all producing at or near full capacity, despite very low world prices caused by the dumping of Russian production

onto international markets. Profits from these operations will not be sufficient to provide a short-term return on these investments, or to cover the substantial deficits accumulated by these giants, particularly last year.

Housing starts in the US have resulted in rising forest product prices, and most lumber, board and plywood mills in Quebec have been in full operation since the start of the year. Many are heading for their best fiscal year since 1979. The wood chip market, however, is largely dependent on the depressed demand from paper manufacturers, and has not been part of this recovery.

The rate of production capacity utilization of pulp and paper mills increased from 86% in 1992 to 97% during the first 6 months of 1993. The economic recovery in the US and publishers' accumulated inventories because of strike fears are primarily responsible for this level of activity. The mass of accumulated inventories, however, should act to reduce industry operations in the coming months. In response to the structural problems before them, several companies (Donohue, Domtar, Stone-Consolidated) this summer announced plans to invest in equipment or in process changes. Beloit Canada, a major manufacturer of machines used in the pulp and paper industry, nevertheless announced that it would be closing within less than a year, putting 200 people out of work.

According to the President of the Quebec Furniture Manufacturers' Association, exports to the United States should grow by 1% this year. The Shermag company, which is the industry's leading exporter, turned a profit in the first quarter of 1993 after operating in the red since 1989-90. Food and beverage deliveries will

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remain stagnant through the rest of the year, for lack of greater access to the US market and because of insufficient competitiveness with imports. But there are some exceptions, such as the breakthrough into the US market by Industries Lassonde, a major producer of fruit juices and fruit drinks. Anaemic household consumer demand continues to limit activity in the textile and garment industry, but prospects are more favourable for industrial textiles.

Modern manufacturing industries

Land transportation equipment is gradually returning to the ranks of Quebec's principal product exports, and many firms are operating at full capacity. Worth noting are the new GM plant in Boisbriand (200,000 vehicles/year), Kenworth (truck assembly), Manac (contract to produce 250 vans for Sears), Bombardier (which has major contracts with the US), and CANAC International (which has started modernization work on the Montreal-Deux-Montagnes commuter train). The Hyundai plant in Bromont, however, was shut down for 18 months to retool the assembly line, and the General electric plant in east-end Montreal laid off 300 of its 500 employees.

Difficulties continued in the marine transportation equipment sector, with the closure of Cadorette Marine, Quebec's largest manufacturer of pleasure craft, and the predicted layoff of 2,500 workers at MIL Davie over the next few months.

Construction

During the first 6 months of 1993, housing starts in Quebec were down 16% by comparison with the first half of 1992. Activity on construction sites is expected to continue slumping this year.

A few industrial and institutional projects are planned; these include the Petresa plant in Bécancour, the new Montreal Forum, several co-generation facilities, the start of Laforge-Deux project work by Hydro-Quebec and a number of hospital and school modernization projects (École des hautes études commerciales, Hôtel-Dieu de Montréal, etc.).

Services

The service industries suffered a loss of 35,500 jobs during the first four months of the year. The finance, retail, personal and business services, accommodation and restaurant services sectors have been particularly vulnerable. Although retail sales in the first half of 1993 were 4% higher than in the first six months of 1992, the retail sector lost 16,000 salaried employees from January to April. Several firms, such as Trans-Canada shoes, have closed or will be closing down in the next few months, particularly service stations and food markets. Sales growth should be higher in wholesaling, particularly among large warehouse stores, as evinced by the opening of a second Réno-dépôt warehouse store in Anjou in August.

The Quebec tourist industry had a good summer comparable to the summer of 1989-90, and this generally augurs well for the fall. The Hotel Association of Greater Montreal estimates that the room occupancy rate was 57% vs 54.7% in 1992 and 55.3% in 1991. The total number of person-nights increased 7.4% from 1992 to 1993.

REMARKS

- According to a poll conducted by *SOM-La Presse-TVA* (week of September 5), Quebecers

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feel that the next Canadian government should address the following issues on a priority basis: unemployment (42%), the recession (16%), the deficit (10%), excessively high taxes (6%), education (2%) and the environment (2%).

- *L'Association des manufacturiers du Québec* estimates the size of the underground economy at 20% of the GDP, or about \$32 billion. The weight of the tax burden shouldered by Quebecers is a contributing factor in the growth of this phenomenon.

PRINCE EDWARD ISLAND

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OVERVIEW

The strength of the Prince Edward Island economy is reflected by agriculture, fishery and tourism activities of the late summer and autumn months.

Prospects this year remain unsettled with positive inputs being offset by negative factors.

Record 1992 exports (assisted by favorable currency exchange rates) continued, across a broad base, through June 30, 1993. Potato shipments are up due to both price recovery and, following resolution of the PVYn problem, the reopening of U.S. markets. Export markets for manufactured goods remain strong. Tourism visitations have increased slightly with C.N. marine recording a 3% growth in overall passenger traffic. In the seafood sector landed values of lobster, crab and mussels are offsetting the problems of the ground fishery.

On the other side, retail and motor vehicle sales remain stagnant. Construction is weak. Housing starts and completions, to June 30, are down. Commercial and public construction is limited to a few, mostly maintenance, projects. While the work force continues to grow

employment is falling resulting in record high unemployment rates. Although few employees have been declared redundant to date continued government reform activities have unsettled consumer confidence.

The fixed link project is making only slow progress. A master contract has been signed with unions and several employees spent much of the summer in P.E.I. initiating planning and coordination activities. Bureaucratic hurdles remain; although most have been overcome the "Link" is again on hold pending completion of yet another environmental review (this time by Transport Canada).

These negative factors have contributed to continued stagnation throughout the summer. Recovery prospects will

remain deferred until public uncertainty has been relieved.

INDICATORS

Maritime Electric reports that electrical consumption is expected to rise by about 3% over the year; however this growth is not indicative of overall economic activity.

Island Telephone Limited advises that growth in



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long distance messages continues but at a slower rate than in the past. Line access installations are up over forecasts - no explanation is known; their forecast is for nominal economic expansion over the current year increasing to 3% in 1994 based on the impetus which the Fixed Link will provide.

Housing starts are expected to fall over the year as increased single unit starts will be more than offset by a reduction in multiple residential housing. Resale activity remains stagnant despite low mortgage interest rates and is not expected to increase in 1993. CMHC does not expect growth to resume until the construction phase of the Fixed Link begins.

H.R.L.C. reports that our labour force (seasonally adjusted) participation rate is 65.1% and unemployment has climbed to 19.4% as at August 31, 1993.

Advertising lineage of the Charlottetown Guardian newspaper, for the year to date, has returned to near 1991 levels. However, the economic message is mixed and interpretation is that the consumer is biding time.

MOOD

The consumer remains unwilling to lead any recovery as is reflected in deteriorating retail and car sales. One contact suggested that without the introduction of a "vision" or motivating factor consumer confidence would not return quickly.

The local CMA manager also believes that the economy needs a kick start. CMA membership has stabilized (at a level half that of 1991) but he fears that unless things turn around soon several manufacturers may fail. While industry is nervous about domestic market prospects some CMA members are undergoing expansion primarily for export markets. A local bank manager advises that his commercial clients seem to be enjoying modest success.

Banking, trust company and industry sources all concur that that mood of the consumer is one of caution. Employment insecurity is placing a damper on all but the most necessary expenditures; much of this malaise can be traced to downsizing efforts by larger companies and government and the media attention drawn by these.

KEY SECTORS

Manufacturing:

The manufacturing sector has been discussed somewhat; its contribution to Gross Domestic Product remains steady at 6.4% with a forecast growth of 3.7% in 1993 (Conference Board of Canada). The Province continues its efforts to develop an aerospace sector at Slemmon Park (the former Summerside air base facility). Tenants in place are meeting their performance targets. Several new tenants have moved into this facility over recent months and officials are optimistic that an airframe maintenance firm will be recruited within the next few months.

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Fishery:

The fishery offers both opportunity and problems. At least one hundred boats, with concurrent employment generated at the processing facilities, rely on the ground fishery which faces a bleak 1994 following closure (except for certain allowable by-catches) of the local districts. The reduced access to stocks will particularly affect Island Saltfish Inc. (closed at present), the Tignish Fisheries Co-operative Ass'n. Ltd. and Souris Seafoods Limited. The Usen Fisheries Limited redfish processing facility (the Island's largest seafood employer), was just destroyed by fire; the plant has always been profitable but, in view of resource concerns and general industry overcapacity and as the plant's owners also own and operate a facility in nearby Cape Breton Island which has depended on cod but can be easily converted to process redfish, rebuilding is questionable. Closure would mean the loss of 250 (ten month) jobs. While demand for seaweeds seems to be recovering harvests are down. The roe herring fishery is facing reduced market demand although one (mainland) major buyer has increased herring purchases, presumably for the food or bait market. The issue of lobster carapace sizes has yet to be resolved. Lobster landings have increased slightly over 1992. Prices paid to the fishermen for "canners" were lower; prices for "markets" were higher. The outcome was a reduced payout to the fishermen. The processors still hold an exceptionally high inventory of frozen lobster (in brine pack) and are making renewed efforts to sell this off. On the positive side there has been new growth in

the crab and rock crab fisheries; dogfish and shark resources may hold promise for development and the aquaculture (mussel) industry continues to grow.

Agriculture:

Agriculture is essentially stable at this time. The P.E.I. potato sector looks healthy over the near term. Increased acreage has largely offset reduced yields. Quality is excellent. Markets appear buoyant (shipments are bringing \$4. per cwt more than last year) and the harvest may be insufficient to meet all demand. The PVYn virus has been eradicated enabling the industry to reenter U.S. seed potato markets. Mosaic, another virus, could (over the longer term) downgrade seed crop quality and also affect the processing sector as the Shepody variety, favored by processors, is very susceptible to this disease. Frozen potato production continues to show growth. The hog industry remains under developed as hog farmers are not delivering enough animals to the Garden Province Meats facility to enable efficient operation. Dairy farmers still await the eventual GATT agreement and the possible impact on their supply management system. In the tobacco sector increasing yields have offset reduced acreage. Blueberry production is growing (yield and acreage) but prices have moderated somewhat. Representatives are encouraging value added processing to increase the economic returns to P.E.I.

Tourism:

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In the Tourism sector the peak visitation season has concluded. Official statistics are not available but the general consensus over the summer is a weak June and 1st week of July followed by a very strong remainder of July and all of August. Mr. Ian Hurst, past president of the P.E.I. Hotel/Motel Association, indicated that most of the Association members are showing an overall increase in occupancy as high as 10% over this time last year. Of particular note is the Meeting/Convention business. As of the end of August, convention delegate numbers (23,426) have already surpassed all of 1992. The outlook for the fall season is strong. Ms. Valerie Downe, General manager of the P.E.I. Convention Bureau, indicates 26 confirmed convention bookings (50 rooms or more) with over 5,500 expected delegates to the end of the year. Confirmed bookings for 1994 are currently at the 20,000 delegate level.

OBSERVATIONS

While the consumer mood is cautious pockets of industrial optimism (generally servicing export markets) exist which could encourage economic growth. The "Link" remains the only major activity in sight which could, in the near term, stimulate economic recovery in the Province; in addition to creating 3,000 direct jobs it is expected to stimulate several private sector expansions once the project has commenced.

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OVERVIEW

The pace of recovery has been slow. Weak consumer demand is offset by strength in export markets - primarily motor vehicles to the U.S. Signs of growth, particularly among smaller firms, are also emerging. For larger, non-automotive manufacturers, recent industry rationalization has meant stabler markets, although tighter margins have limited profitability. Over the past ten quarters, the level of real GDP increased by 4.5%, less than half of the output lost during the recession. The private sector's outlook for the economy continues to be mixed, but generally positive.

The key constraint is weak consumer spending, which accounts for approximately 42% of Ontario's output.

Concern about job security has created a confidence problem, with Ontarians preferring to save their money rather than spend it - the personal savings rate is 14.2 compared to 11.4 in 1990. Threats of public sector lay-offs in Ontario, the on-set of widespread restructuring of the service sector and further job shedding, albeit at a greatly reduced rate, by goods-producing firms have contributed to this insecurity. As a result, significant improvements to Ontario's high unemployment



are not anticipated. Tax increases imposed in the recent Ontario Budget have further aggravated the consumer spending problem by cutting into disposable income.

Improvements to domestic demand are further hampered by weak government expenditures and low levels of capital expenditures. A dislike of current provincial government policies, the need to improve balance sheets and the high costs of downsizing are cited by business as various reasons for their restrictive investment plans. Both residential and non-residential construction remain in a recessionary state, while machinery and equipment investment has shown only modest recovery and is largely maintenance oriented. Inventories are generally reported up.

INDICATORS

A review of leading indicators confirms the disjointed and tenuous nature of the Ontario recovery. Custom brokers report continuing poor activity in the importation of machinery and equipment, indicative of weak industrial capital investment and long-term business confidence. The Help Wanted Index, which stood at 92 for April (1981=100), has been on a steady decline since, falling to 81 in August and suggesting a weakening employment market.

ONTARIO

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(The corresponding national figure for August was 85). As a result, consumer confidence appears to have dipped again. According to Decima Research, polls currently suggest that 27% of Ontarians expect to make a major purchase in the next 6 months compared to 35% in March, 1993. This weakness in consumer confidence is particularly noticeable in the Greater Toronto Area where real estate sales have been off sharply, (9.1% during the first 8 months of 1993 for residential properties and 2.7% for non-residential).

Notwithstanding these discouraging symptoms, there are signs of improvement. Inquiries to the Metropolitan Toronto Convention and Visitors Association for the year to date total 127,808, up 22% over the same period a year earlier. On a comparable basis, inquiries to the ISC Toronto Business Service Centre are up 12.5%. The Ontario Ministry of Labour is reporting a significant drop in lay-offs. In the first eight months of 1993, 11,523 jobs were lost compared to 19,819 in the same period during the previous year.

MOOD

The business community continues to be cautiously optimistic about the future. Despite the weakness of consumer demand, (which business would like government intervention to improve), business still holds to a 1993 growth rate of 2.0-2.5% predicted in the last report. This means a slight drop from first quarter results, but continued strong reliance on the export sector. It is felt that, other than in the

auto-related sectors and amongst small, high-tech companies, which are export oriented, there does not appear to be strong prospects for improved employment and capital investment.

There remains a strong mood of frustration with the provincial government and its policies, particularly its management of the Workers' Compensation Program and the proposed employment equity legislation. The feeling is that conditions will only marginally improve in 1994.

Key Sectors

A. Resource-Processing Industries

There is considerable strength in this sector. Agriculture is reporting an excellent year, with no significant problems. Commodity prices are strong and there has been steady industry growth in the food & beverage industry. The lumber industry has also benefitted from strong commodity prices, which after a recent downturn, appear to be on the rise again. Strong export demand to the U.S., fuelled by the reconstruction generated by a number of natural calamities, the lower Canadian dollar and U.S. domestic supply problems, have helped Ontario mills improve their capacity utilization and provide some additional employment. Notwithstanding this good performance, operators are cautious about new investment or expansions. After several years of downturn, on-going harassment by the U.S. Commerce Department and continued weakness in the domestic housing market, lumber companies are

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content to improve their balance sheets.

For much of the pulp & paper and mineral processing industries, the situation is less positive, with prices being depressed. Newsprint, while enjoying a 4% growth in U.S. demand in 1993, is facing a weak European market. Overcapacity world-wide has forced plant shut-downs, such as the Thunder Bay closure by Canadian Pacific for four months. Recent labour bargaining reflects market conditions, with the new 3-year agreements featuring wage increases of 0, 0, and 2%, although acceptance has not been universal and there has been some labour unrest. For the mineral industry, hardest hit have been producers of nickel, copper and zinc, who expect further shut-downs and layoffs. Precious metal prices have been good lately, but volatile. The best news here is the diamond exploration activity, which is providing significant stimulus to the Kirkland Lake area.

Among steel-related industries, business has been improving. Recent U.S. trade action against imported steel products has not seriously affected Ontario producers. While dumping charges on plate and galvanized steel were upheld, the former was a relatively small export and the latter has been buffered by a lower Canadian dollar and rising product prices. Further restructuring among the primary producers, however, is anticipated. Speciality producers and fabricators, for their part, are enjoying improved sales and profits. Some investment is projected, although two of the last

major investments announced were for mini-mills to be located in the U.S.

The chemical industry reports worldwide overcapacity and poor prices. Rationalization in the sector is continuing, particularly in Sarnia. The next international cycle of long-term investment (10 years) is underway, with almost no development anticipated in Central Canada. With aging assets and a tough provincial policy environment that is deterring investment, the mood of this sector is negative.

B. Manufacturing

The main story of the Ontario economy is the strong performance of its large automotive industry, which has been instrumental in helping the province into recovery. Assemblers and parts manufacturers remain upbeat after a 20% annual growth in motor vehicle shipments and significant productivity improvements. Extra capacity has recently been added by GM and Chrysler at Oshawa and Windsor, respectively, while Toyota will now manufacture engines at its Cambridge facility. The high value of the Japanese yen has meant market share gains for domestic producers. Aftermarket sales of auto parts have also exhibited strong recent growth. There are, however, some cautionary notes. The domestic auto demand has remained weak and growth has been primarily based on U.S. exports. Moreover, industry analysts do not foresee any further strengthening of demand over the next 12-18 months. As a result, while there have been some employment gains, there

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is general resistance to add staff. The industry reports significant recent investment, which it suggests means low investment intentions for 1994.

Many industries serving the auto sector have benefitted from its relative strength, notably robotic and tool & die companies. For Windsor, in particular, this has created a strong local recovery. As in other parts of the economy, this has not translated into significant new jobs and primarily involves the recall of recent laid-off workers. Among other machinery and capital equipment industries, those catering to the construction industry have been affected by the general malaise associated with that activity, while other segments who have identified export opportunities appear to have generated important new business. The plastics sector, centred largely in the Greater Toronto area, has exhibited steady growth patterns, but like many are being faced with tighter margins. Typically, companies with state-of-the-art design and efficient plants are proving to be the best survivors.

In the semi-durable sectors, such as clothing, textiles, and footwear, the outlook continues to be somewhat negative as domestic consumers are not spending. Financial instability of retailers also threatens receivables of suppliers resulting in their inability to negotiate credit at financial institutions. Sectoral rationalization has introduced a stronger entrepreneurial spirit amongst the survivors and a willingness to initiate product redesign, introduce technological innovation and pursue foreign markets. As a

result, some optimism about the future is evident.

C. High Technology Industries

This sector has fared relatively well during the economic downturn. While domestic sales have been weak, the software, environmental and electronics industries are performing strongly in export markets. Generally populated by smaller, expanding firms, this sector is one of the few sources of new investment and job creation.

But even among the high tech industries, there have been casualties. Within the generally well-performing information technologies sector, Northern Telecom has announced the closing of its 705 employee facility in London, where it manufactured telephone sets and terminals. Also struggling are the defense-related and aeronautics industries. Difficulties here are attributable to cut-backs in governments' defense spending and slow demand, as well as airline deregulation. It is anticipated there could be new layoffs in Ontario within these latter two sectors.

D. Service Industries

Although the retail sector has rebounded slightly in Ontario (sales increased 4% in the first half of 1993 compared to last year), retail sales are not expected to reach pre-recessionary levels until the end of 1994. Custom brokers report that the "carriage trade", which is reliant on high cost imports, has remained very strong. Department stores, for their part, note that sales of clothing

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apparel have also been good, but durable goods, such as furniture and appliances, continue to lag. Within Canada, Ontario is reported as the weakest market, with Greater Toronto the weakest part of that market. The drop in the Canadian dollar has helped export sales and significantly reduced cross-border shopping by Canadians. In tracking the use of Canadian credit cards in the U.S., private sector firms have noted a recent 50% drop in the value of purchases in the States.

The hospitality trade too, is generally a little more upbeat with performance improvements over a very poor 1992. Factors cited include: improved weather; the lower Canadian dollar (which influences Canadians to stay home, while attracting U.S. visitors); and a tendency to more local vacations because of economic uncertainties. On the negative side, overseas travel is down, the sector is still a long way from its pre-recessionary performance levels and there are difficulties obtaining credit due declines in commercial real estate values.

For the construction sector, particularly in the Greater Toronto area, the recession has not ended. Many unemployed workers are finding some part-time work doing home renovations in the expanding underground economy.

Business services, one of the fastest growth sectors in the economy, continues to benefit from large corporations increasingly outsourcing their support and advisory functions. With these corporate rationalizations, however,

these services have become quite competitive because of the large number of displaced professionals going into private practise. Management consulting has also witnessed strong growth in the areas of information technologies and corporate re-engineering. The beneficial exchange rate has also created opportunities for legal, architectural, engineering and project management firms in foreign markets. While the finance and insurance industry have been relatively untouched by the economic downturn, real estate services are having a difficult time because of the weak property market.

OBSERVATIONS

During the course of the consultations, a number of themes were repeatedly cited by ISC's clients. These are summarized below:

- the business community would like to see governments take steps to improve the environment for consumer spending.
- there continues to be considerable unhappiness with provincial policies - the management of the Workers Compensation Program, the high taxes emanating out of the last Ontario Budget and the proposed legislation on employment equity are the concerns most frequently cited by business.
- business likes the current monetary environment - interest and exchange rates - but would like to see improvements to fiscal

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policy - tax levels and public deficits.

- while availability to capital no longer appears to be the same widespread concern to all industries, as documented in the previous Ontario report, it remains a concern in several sectors where there are no tangible assets (the knowledge-based industries and services) and where there continues to be relative weak economic performances and high debt-equity ratios (the hospitality and semi-durable industries). Off-cited problems of attaining financing for R&D, export financing and the underwriting of costs for "work-in-progress" capital equipment manufacture still remain.

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OVERVIEW

In recent months, the province has been hit by closure announcements (the cod fishery, Moosehead, Northern Telecom's Amherst plant, the Halifax Hilton), lay-offs and threats of closure. Cutbacks are expected in provincial and federal departments and defence, both of which are important to the Metro Halifax area.

Finance Minister Bernie Boudreau, in his first budget Oct. 1, 1993, raised taxes to "share the pain" of reducing record-high deficits and promised expenditure control and measures to improve the business climate.

Yet, some manufacturing exports are up, due to a weak dollar and success for firms that have restructured and made strategic investments, there is potential in emerging sectors such as software and environmental services, and the 1993 tourism season has been most successful.

INDICATORS

Interest in entrepreneurship continues to grow. The Atlantic Canada Opportunities Agency (ACOA) has, through surveys, found that Atlantic Canadians' intentions of starting a small business increased from seven per cent in 1991

to 12 per cent in 1993. Following a television advertising campaign on entrepreneurship, ACOA received 2790 calls from Nova Scotians interested in starting a business.

Between April and August, new registered businesses in the province increased 12 per cent over the same period in 1992, while new incorporations increased 10 per cent. Meanwhile, business bankruptcies decreased by 30 per cent (January to June).



Demand for commercial loans is up, and one bank suggests companies have reached the point where they can't delay purchases any longer. Another bank reports a significant increase in the number and value of commercial loans in Nova Scotia, from April to August, 1993, and attributes this to changes to the Small Business

Loans Act.

Although municipal social assistance benefits caseloads continue to increase, the number of employable people on short-term emergency assistance has declined slightly in Halifax. Nova Scotia's seasonally adjusted unemployment rate decreased to 14.7 per cent in September, down 0.2 per cent from August and up 2.4 per cent from a year earlier.

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Demand for training is also increasing. It is estimated that there are three to four applicants for every seat in the province's community college system.

September statistics for the Port of Halifax, which recently installed a state-of-the-art EDI system, indicate that the total volume of goods shipped through the port in 1993 is virtually the same as 1992; however, containerized traffic (the most high-value cargo) increased 1.9 per cent.

Total exports increased 2.2 per cent in 1993 (January to June) and exports of inedible fabricated materials increased 9.2 per cent.

MOOD

The recent spate of bad news has increased concern for the future. Some companies, which have lived with losses for several years, are now in a make-or-break position as their equity has eroded. There are, however, opportunities for takeovers or expansions for those with cash, and there is a lot of restructuring underway. Industry observers sense that the new provincial government is prepared to make difficult but necessary decisions.

Sixty-one per cent of Halifax Board of Trade members, surveyed in July/August, 1993, feel economic conditions in Metro have remained stable over the last three months. Most feel their own type of business is doing better (41 per cent) or about the same (42 per cent) as a

year ago. The survey noted a small improvement in members' plans for capital investments, with 28 per cent expecting to increase capital spending over the coming year.

In Cape Breton, recovery looks farther off; there is considerable uncertainty about the future of Sysco and coal mining, Stora's Point Tupper mill and the cod fishery. A positive tourism season (occupancy rates for 1993 are up 12 per cent over 1992) and a Disney movie shot at the Fortress of Louisbourg that injected \$3 million into the area, provided the region's good news.

Halifax-based Corporate Research Associates has found that consumer confidence in Nova Scotia has dipped slightly since the spring, reversing a slow increase over the past year.

KEY SECTORS

Manufacturing:

Restructuring/consolidation in major multinational corporations has adversely affected Nova Scotia branch plants, in the case of Michelin (which announced a reduction in its workforce) and Northern Telecom, which will close its Amherst plant.

General manufacturing firms (metal fabricators, etc.) are pessimistic about the outlook for their sector, although there are signs of improvement. Specialty product firms continue to grow and are optimistic about prospects; some are winning international contracts based on past investments in product improvement and diversification.

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Investment and high technology equipment purchasing (computers, automation equipment) is increasing, as firms strive to remain competitive.

High Technology:

Activity in the geomatics and remote sensing fields is relatively static, as firms adjust to an overall decline in the public sector market. A number have positioned themselves for projects which provide cost-saving solutions, especially in developing countries. Satlantic Inc. has signed an agreement with Orbital Sciences Corporation of Fairfax, Virginia, for the Canadian marketing of satellite-generated ocean colour data and plans to build and launch a weather satellite in Nova Scotia.

Ocean-related firms are optimistic about a new willingness of public sector organizations to work with the private sector to develop products. Several local firms are working together on an ocean mapping initiative for Canada.

Biotechnology firms are stable; those providing lab services are less optimistic than they were six months ago, due to significant restructuring in the North American industry.

Services:

Software firms are optimistic about their sector and prospects. Several (8 - 10) are now structured for selling to the international market and in a "volume mode". Most are investing in

marketing, and some are recruiting new staff. Systemhouse, which has benefitted from outsourcing of data processing for the Nova Scotia government and Maritime Tel & Tel, has established a Halifax base to showcase its client-server expertise to customers across North America. A Halifax firm, Scotia High End Computing, has an agreement with Alex Informatique Inc. of Montreal to develop its parallel processing software.

Environmental services firms oriented to export markets continue to be optimistic about prospects; some are planning investments in innovation, marketing, research and development and training.

This year's tourism season has been good for the whole province. All areas and regions report increases in volume and spending; total road traffic (to August 31) was up eight per cent from last year, while total occupancy was up five per cent over 1992. The province's many festivals appear to be a major tourism draw, and there is increasing interest in eco-tourism and soft adventure packages.

Tourism has benefitted from a low Canadian dollar, Sea Sell and other marketing campaigns, visitors' desire for a safe tourist destination and the region's moderate climate.

The Halifax Hilton, which had proposed opening a casino, announced that it would close Dec. 1, 1993 (laying off 250 employees). However, government approval of the casino might cause the company to rethink its position.

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Resource Industries:

The outlook for the traditional groundfish industry is bleak, with recent quota cuts affecting most major groundfish stocks and resulting in general downsizing and dramatic changes for thousands of fishers and plant workers. However, there is some positive growth, especially in aquaculture and certain under-utilized species. Several aquaculture marketing consortia have been formed and some firms are exploiting specialty niche markets, such as the ethnic Korean market in the U.S.

Industry leaders, such as National Sea Products, are diversifying into value-added processing of poultry and beef. Larger companies are moving slowly from harvesting to procurement and secondary processing of raw materials from around the world. There is also a general increase in investment in training, particularly in quality management, literacy, computer skills and cross-training.

The forest industry has seen some recovery, with exports to the U.S. relieving price pressures. Still, the recovery has been less than that experienced nationally. The pine nematode problem has introduced uncertainty with respect to shipments to the United Kingdom. Some mills have built kilns, which are forcing restructuring, as well as more co-operation.

A continued depressed market for newsprint and the exchange rate account for continued gloom. Bowater will experience down-time and Stora has announced possible closure as a result of the

recession and the cost of upgrading to meet environmental standards.

OBSERVATIONS

During the course of consultations, a number of public policy issues emerged; these are:

- industry perception of unfair competition from government agencies and institutions that provide services that could be provided by private sector companies (geomatics, marine and environmental industries, biotechnology) and are resistant to compromise;
- financing - reduced credit from traditional sources and government programs available to small business, particularly for R&D activities;
- the need for clear government policies on telecommunications and information;
- the need to harmonize environmental regulations and standards across the country;
- the need for rationalization of government assistance programs;
- the introduction of gambling to the province (Board of Trade members surveyed in July/August are strongly in favour of casino gambling and believe such casinos would have a positive impact on Metro's economy); and
- concern that high taxes and the trend towards self-employment have contributed to growth in the underground economy.

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OVERVIEW

The short to medium term outlook for the Newfoundland economy, as in the Spring 1993 document, continues to be a mixture of cyclical and resource availability problems in resource sectors, new growth opportunities in emerging, non-traditional sectors and increase in activity generated by the Hibernia project. After suffering a decline in real output of -3.2% in 1992, the province is expected to experience real growth in 1993 of about 1% to 1.2% despite the worsening problems of the fishing industry.

Fishing, fish processing, wood products, and shipbuilding and repair all continue to experience problems throughout 1993 while gold mining, iron ore production, forestry and newsprint are expected to show some recovery in the last half of 1993 as a result of the general recovery in export markets, especially to the United States.

Labour market conditions remain weak. The unemployed rate rose from 18.9% in September of 1992 to 19.6% in September of 1993. Also there was a decline in both employment and the total labour force. This weakness in the labour market is due mainly to the situation in the fishery sector which continues to effect

employment in the goods producing sector.

This weakness will continue through the remainder of this year and into 1994. However, construction and service activity related to Hibernia development will mitigate the situation to some extent.

The total value of goods production declined in the first half of 1993 as a result of continued weakness in resource processing, fishing and forestry. However, the value of exports grew as a result of improvements in the mining sector.



The Hibernia project is now back on schedule and will be completed at less than the original budget. The revised development plan calls for a reduction in the number of sub-sea wells with a saving in capital

costs. This will also result in reduced operating costs. Employment at the Bull Arm construction site will rise from 1,400 in April to a peak of 2,400 this year. The Hibernia project will inject approximately \$500 million in expenditures into the provincial economy in 1993.

INDICATORS

After an initial rebound in the residential housing market in the first five months of 1993,

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activity has eased with a decrease of -11.1% in housing starts in the second quarter. In July, housing starts declined by -11.4% in St. John's and by -47.1% in Gander. Second quarter residential resale in St. John's fell by 11.1% from the same period in 1992, while average sale prices declined marginally.

The volume of iron ore production in Labrador fell by -6.3% in the first eight months of 1993.

New motor vehicle sales rose by 13.1% in August.

In the first four months of 1993 bankruptcies declined by 20.6% over the same period in 1992.

KEY SECTORS

Manufacturing:

The manufacturing sector continued to suffer a general decline in shipments in the first eight months of 1993 in resource based processing and manufacturing such as fish processing and newsprint production. Growth is continuing in the non-resource based manufacturing sector, especially in the area of high tech products. While this comprises only 15% to 20% of the total manufacturing sector, it will be the most dynamic area over the medium to long term.

Services:

The service sector performance and outlook is mixed. While total retail sales were down in the

first seven months of 1993, there have been some positive aspects, such as a growth in retail sales in July and August and increases in purchase of consumer durables. There has been significant downsizing in companies, such as transportation, which service and supply the fish and fish processing industries. There are also indications that fish processors are not carrying out maintenance and servicing of processing equipment.

Resource Processing:

Fishing: The northern cod moratorium is still the main issue in the fisheries sector. Scientific information suggests that this stock is not recovering at the expected rate. This means that the moratorium will likely remain in place beyond the previously announced two years. In addition quota cuts and closures have recently been put in place for the south coast and Gulf stocks, resulting in further plant closures and layoffs.

Fishery Products International have improved their situation in the first half of 1993 compared to the first half of 1992. Also, sales are up over last year. This improvement in performance, while the northern cod moratorium is in effect, is due to the company's policy of international procurement of cod from Iceland, Norway, Greenland, Russia and the Faroe Islands. The company has also started to use fish from the Pacific. The company is projecting that in 1993 over 60% of their groundfish will come from non-traditional sources. The company continues to mothball plants and sell off older trawlers in

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an effort to cut costs.

Newsprint: The outlook for the newsprint industry has improved in 1993. Prices have firmed up and mills have improved efficiency and capacity utilization. Newsprint exports are expected to grow by 2% in 1993, with further growth in 1994.

Iron Ore: The volume of iron ore shipments continue weak, with a decline of -6.3% in the first eight months of 1993. However, the situation has started to improve with production in August increasing by 225.0% over August 1992. Markets and prices are improving and it is likely that trends in the second half of 1993 will result in a slight increase for the year.

High Technology:

The high tech sector is the main beneficiary of growth associated with technological opportunities afforded by Hibernia development. There will be higher growth in areas such as communications, directional drilling, materials engineering and oceanographic instrumentation over the next few years. A unique design centrifuge machine was commissioned in June 1993 at the Centre for Cold Ocean Resources Engineering. This facility will enhance Canadian industry capability to design and construct engineered structures in harsh environments.

Also, there will be a number of developments in the high tech sector associated with non-Hibernia related activity such as aerospace and sensor

technology.

CORETEC of St. John's is developing a software program to predict the incidence of icebergs and iceberg movements in order to minimize the risk of collision with offshore oil platforms.

Guigne International has developed a multi-beam sonar devise called "dynamically responding underwater matrix" (DRUMS) for studying seabed sedimentation. Guigne has been awarded a contract by the Canadian Space Agency to apply this technology to the shaping of specialized glass material in levitator furnaces designed in space.

MOOD

The business community remains optimistic that things have bottomed out and that there will be positive economic growth in 1993, mainly due to an increase in Hibernia Development activity. The St. John's Board of Trade mid year Business Outlook Survey shows the outlook of business on economic conditions for the next six months has improved since their January survey. The Board attributes this improvement to the resumption of the Hibernia project.

However, there remains pessimism in many quarters from the prospects for the fishing industry throughout the rest of 1993 and into 1994. In addition to the Northern Cod Moratorium, fish stocks on the south coast have recently been subjected to closures. It is now certain that Northern Cod Fishery is not

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rebuilding to levels required to allow renewed fishing in 1994. The uncertainty as to whether the compensation package will be continued after March 1994 is adding to this pessimism.

OBSERVATIONS

- In recent months the situation in the fishery has reopened the debate at the political, academic and community levels on both resettlement and the level of population the province can support.

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OVERVIEW

The economic performance into the third quarter of 1993 continues to provide mixed signals. While some sectors such as lumber production, tourism, housing and retail indicate improved performance compared to the same period in 1992, industries such as the fishery, pulp and paper, mining and construction reflect little or no improvement. The low Canadian dollar continues to support exceptional export growth. The pending federal election, as well as deficit cutting rhetoric and action by all levels of government, has created a mood of uncertainty affecting both consumer confidence and business investment.

INDICATORS

Housing:

"Strong employment growth and continued affordability gains boosted activity in the housing market during the first half of 1993", according to CMHC analysts. While rural areas experienced the largest gains (up 43%) over the first six months of 1993, only Moncton boasted an increase (290 starts) among the province's major urban centres. Although new house construction will slow over the remainder of 1993, New Brunswick should see some 2,700

housing starts this year, about 13% higher than in 1992.

Government Assistance:

The Atlantic Canada Opportunities Agency (ACOA) Regional Office in Fredericton indicated that enquiries for assistance have tailed off dramatically since the end of the first quarter of 1993. Although activity seems to be picking up a little in September, the province's central and northern region office enquiries have, until now, been comparatively few. However, the southeast office continues to handle a steady volume of enquiries.

Marine Services:

To the end of August, Marine Atlantic's Borden - Cape Tormentine run indicates a 3% increase in passenger traffic (15,629 more passengers) and an 8% increase in commercial traffic over the same period last year. For the Saint John to Digby run, passenger traffic has increased by 13% (up 4,598) and commercial traffic by 13% from January-August 1993 over the same period last year.

The Port of Saint John reports a marked increase in cruise ship traffic - 18 vessel calls so far in



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1993 with some 13,000 visitors compared to 5,500 visitors in 1992. On the cargo handling side, predictions for 1993 are in the area of 18 million tonnes, indicative of a very good year - the largest previous year was 1991 when the Port of Saint John enjoyed a 3rd-4th place ranking (in cargo tonnage) among Canadian ports.

Domestic Car Sales:

Car sales for Chrysler, Ford and General Motors products are reported to be up in New Brunswick and Prince Edward Island, and down in Newfoundland and Nova Scotia. On an Atlantic Region, year-over-year basis, sales are down 6 percent. For the first time, however, there are signs of an upsurge on the retail side and volume orders being currently placed on the fleet side reveal higher numbers.

MOOD

A recent survey of consumer confidence undertaken in Atlantic Canada by Corporate Research Associates of Halifax, indicates that the confidence level is up in New Brunswick and that, on a regional basis, satisfaction in the performance of government has been climbing. The consumer's optimism is reflected somewhat in department store sales which, although down or flat elsewhere within the Atlantic Region, continue to be steady in New Brunswick. Major malls report favourable sales levels throughout the summer months and in the case of Moncton's largest shopping mall, new clients are lining up to await openings - something which

has not been occurring in recent months.

A better indication of a strong or strengthening economy is the volume of larger purchases. "Trading up" seems to reflect the nature of current purchasing decisions in both the real estate and car markets. A strong market for used cars and a current decline in new car sales illustrate the price sensitivity and underlying insecurity of consumers with respect to vehicle purchases.

A mood of uncertainty continues to prevail with respect to business investment decisions. Pockets of New Brunswick continue to do well, particularly the southeast region, while little activity is evidenced in most other areas. ACOA's low client enquiry activity is corroborated by the banking community. A National Bank spokesperson stated that despite a better-to-date, year-over-year performance in terms of the bank's commercial loan activity, investment activity has been slower than anticipated. The revisions to the Small Business Loans Act (SBLA) engendered rising expectations on the part of the banking community; yet, despite these revisions and generally more profitable accounts (also a positive sign), business investment decisions have not been forthcoming. Many observers contend that the strong political rhetoric and action undertaken by all levels of government with respect to the deficit, as well as severe cuts experienced in areas such as hospitals/healthcare and education, have contributed to a sustained feeling of uncertainty on the part of investors. On the other hand, many have also expressed

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optimism that business investment will in fact pickup following the federal election of October 25th.

KEY SECTORS

Forest Products:

As 1993 began, the softwood lumber producers enjoyed exceptionally strong sales into the United States market. However, as U.S. inventories were replenished and demand tailed off during the second quarter, production from sawmills slowed. A major lumber producer has stated that prices at this time are very good and have, in fact, increased over the past few weeks. Order files are in the vicinity of three weeks, indicative of a promising autumn. Market demand in the Northeast U.S. is good and is anticipated to be strong in 1994. The activity of several mills, which have commenced or are planning modernizations at this time, lends further support to present indications of promising market opportunities.

Of note in the pulp and paper sector, is the promising development of Repap's ALCELL project which has moved from the R&D stage to the commercialization phase. Over the next six months, an environmental assessment will be conducted re the application of ALCELL to either the Atholville mill (wholly-owned subsidiary of Fraser Inc., part of the Noranda Group and currently closed) or the Newcastle site of Repap's operation.

Services Sector:

The consulting engineering companies are hurting as a result of the lack of both public and private capital investment spending. For some firms, government contracted work has represented as much as 50% of revenue.

The construction industry is undergoing considerable rationalization. "Too many bidders chasing too few projects at distressed prices", according to the head of the Construction Association of New Brunswick (CANB). Repair and refurbishing work remains high, roadwork is spotty. No major projects on the horizon - recent meeting with NBPower, a major purchaser of construction activity, disclosed that the market prospects are not yet there for consideration of a Lepreau II, or a Belledune II. No word has been forthcoming on the possibility of new work for Saint John Ship building Ltd. as the frigate program winds down.

The CANB will be discussing private sector financing of public infrastructure projects at an upcoming October session. Consideration will be given to the build/long term leaseback type of arrangement wherein construction financing is provided by the private sector.

The knowledge-based industries are attempting to formalize the establishment of a Knowledge Industry Association for New Brunswick. A returning New Brunswick delegation from Softworld '93 in Vancouver is highly enthusiastic following successful promotional efforts for Softworld '94, to be staged in

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convergence of information technologies, the organizers have advanced the theme for Softworld '94 as "Strategic Alliances along the Digital Highway".

The tourism sector has enjoyed a much better year to date than in 1992. Toll free line and written requests are up 92%. Visitor estimates indicate an increase of 5 percent or more for 1993. Occupancy rates are running two full percentage points higher this year. In July alone, the occupancy figure for the province was 73%, a level not seen in New Brunswick since 1989. Attractions and National Parks are also reporting increases. Domestic travellers account for the increased visitations as the number of U.S. travellers is about the same as last year.

Seafood:

The Atlantic cod fishery moratorium will affect some 800 direct jobs in the primary and processing levels. While this will represent only 10% of the value of the commercial fishery, the fact that the job losses are concentrated in the already economically-depressed northeast part of the province, underscores the gravity of the situation.

While the crab fishery has enjoyed a strong resurgence this year, the lobster landings are expected to be down for the third consecutive year. This bears a close watch to determine if it is indicative of a larger trend of depleting lobster resources.

With respect to herring roe, indications are that

the Japanese market, apparently oversupplied and with high inventories, will purchase 50% of their usual seasonal volume.

OBSERVATIONS

"We're being priced out of the market" says the head of the N.B. Homebuilders Association, as individual homeowners undertake their own general contracting functions. The informal, underground economy is displacing many formal building contractors.

The low Canadian dollar and improved marketing efforts by retailers have dramatically improved the economies of border communities since the beginning of 1993.

Max Cator, Executive Director of N.B. Forest Products Association, has a couple of major concerns: firstly, that the Cooperation Agreement on Forest Development will not be renewed thereby eliminating the stimulus for silviculture and adversely affecting the current rate of forest management efforts; and, secondly, the potential spill over effect into New Brunswick, of the Clayoquot Sound logging situation in British Columbia. Association members are being surveyed to determine if a proactive public relations campaign should be undertaken.

Finally, this from a small tourism accommodation operator: "If I could get \$5.00 for every person that I had to turn away this summer, I would report a huge profit at the end of the year."

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OVERVIEW

Overall, the Manitoba economy has performed sluggishly in Q2. In part, this is a carry over from the significant downturns experienced in agriculture and construction in 1992.

Poor prospects for agriculture in 1993, a weak performance in Manitoba's mining sector which has been hurt by low nickel and copper prices, as well as a sluggish service sector, have slowed the province's economic recovery.

Manufacturing continues to be a bright spot. Triggered by a lower Canadian dollar and solid growth in the U.S. mid-west, this sector is expected to grow by 6.0% to 7.0% in 1993.

Weather has been the main story in Manitoba this summer: record rainfall from April to September has resulted in serious flooding and crop damage, affected tourism and further depressed consumers' outlook.

Flooding in the province has resulted in over \$700 million in public infrastructure and personal property damage.

Early expectations of a bumper grain harvest in Manitoba have given way to concern over salvaging existing crops: wet conditions are contributing to the growth and spread of "tombstone", a fungal disease that renders grains toxic to both humans and animals alike.

Flooding has nevertheless produced some positive economic spinoffs: local contractors, trades people, and furniture, appliance and carpet dealers are doing a booming business repairing homes and replacing household goods damaged by flood waters.

INDICATORS

The Conference Board of Canada recently downgraded its predictions for Manitoba's growth to 1.4% in 1993, down from 2.3%.

The recovery most Manitobans were anticipating in 1993 has yet to materialize - Manitobans are sending out mixed messages:

- retail sales for Manitoba are up 7.7%, almost double the national rate of 3.8% (This coincides with the drop in cross border shopping trips.);

- housing sales are down 4.0% from a year earlier, despite low interest rates and very affordable housing prices.

Overall, capital investment in the province is down by about 0.7%: the decline is largely due to reduced public spending on hydro construction. Public capital investment is down by 5.8%, while private capital investment is up by 2.3%.

The Manitoba Bureau of Statistics anticipates new manufacturing capital investment will



increase by 40.3%, the highest rate of any province in this sector and significantly higher than the expected national average of only 0.7%.

The most recent labour force statistics indicate that between July 92/93, Manitoba's labour force grew by 0.4%, pushing employment levels (536,000) beyond pre-recession levels. Unemployment levels in the same period have dropped from 10.0% to 9.5% and remain the second lowest in the nation.

The agriculture industry generated the majority of new jobs (12.4%), followed next by the service (6.0%) and construction (3.6%) sectors. Job losses were recorded in the manufacturing (-3.0%), trade (-5.7%) and primary goods (-12.3%) sectors.

Early indicators show enrolment at the University of Manitoba down from previous years. Low summer employment, lower paying summer jobs, significant increases in tuition fees and greater job uncertainty have been touted as chief causes.

MOOD

Job uncertainty (the #1 issue) continues to negatively affect consumer confidence. Manitobans see no relief coming from a federal election.

New lay-off announcements (e.g. Manitoba Hydro - 480 positions by 1994; Manitoba Telephone Systems - 1,000 positions by 1995), plus health care cuts (nursing and bed reductions) continue to undermine confidence.

KEY SECTORS

Information Technology Industry:

Much work is underway in Manitoba to determine the enabling effects of information technology particularly as it relates to the competitiveness of other sectors.

The Information Systems Technology Advisory Panel (ISTAP), a private sector group including ISC which reports to the chamber of commerce, is examining the importance of IT on all sectors in Manitoba. A strategic plan is being prepared to assist Manitoba make the transition into the information economy.

Services Sector:

A recent project completed by the ISC Manitoba Regional Office examined issues in the service industry at both the industry and firm level. Some initial findings of the survey (based on a 34% response rate) are as follows:

- firms found obtaining financing and skilled employees the most difficult task;
- firms ranked customer service, innovation and the use of telecommunications as the three most important competitiveness factors;
- personal contact, word of mouth and repeat business are the three most important ways to market (which indicates why service industries have difficulty entering an export market); and
- at the industry level, firms viewed market accessibility and NAFTA as the two most important issues which could affect the growth of their industry.

INDUSTRIAL INTELLIGENCE REPORT

Tourism:

The tourism sector had a strong showing in Q2 despite having to overcome major obstacles such as a depressed local economy, poor weather, and the flooding of the American Mid-West which resulted in cancelled tours to Manitoba.

In July, the number of U.S. residents entering Manitoba increased by 1.6% over 1992. For year-to-date totals, arrivals by U.S. residents are up by 1.3%, significantly higher than forecasted by the Canadian Tourism Research Institute (0.4%). By comparison, total U.S. arrivals to Canada are down by 0.6%.

In terms of U.S. market share, Manitoba ranks 5th, ahead of Alberta, Yukon, Nova Scotia, Newfoundland and PEI.

More promising is the 37.8% increase in visitors from other countries. Rendez-vous Canada and the local integrated marketing program are being credited with this increase.

The Canadian Lodging Outlook reported that Winnipeg's average hotel occupancy rate (64.7%) was ranked 2nd out of 28 jurisdictions. Also, Tourism Winnipeg noted a 49.0% increase in the number of travel inquiries.

Major festivals and events reported higher attendance over the previous year.

Secondary Wood Products:

Sales growth for secondary wood products in domestic and export markets has been strong throughout Q2. Unlike most years, many manufacturers did not have a summer shutdown.

Large-scale plant expansions are being planned

for several architectural millwork firms.

Lower costs through improved production organization and more effective use of existing machinery are providing market gains for window and kitchen cabinet products.

Demand for wooden household furniture is strong, particularly in the export market (exports now account for over 50% of sales for one large manufacturer, the first time this has happened in Western Canada).

The most critical issue in the industry is the shortage of highly skilled workers. The current Canadian education curriculum is not designed to produce wood products engineers capable of assisting manufacturers to compete globally. As a result, there has been great industry support for the National Education Initiative (NEI) project based on the Fachhochschule Rosenheim model.

The NEI project was started by the Wood Processing Industries, FH Rosenheim, Germany and ISC with the objective of establishing within the Canadian academic community a capability to produce wood engineering specialists similar to those available to European manufacturers from the FH Rosenheim. About 100 firms have taken part in this industry-financed initiative.

Health Care Products Sector:

Economic conditions are contributing to the positive mood of this sector as reflected by planned or completed plant expansions: \$20 M Apotek fermentation facility for product research and development; and \$10 M Rh Pharmaceuticals for product manufacturing.

Of concern is the Biovial plant in Steinbach

which has experienced difficulties in obtaining sufficient contract manufacturing opportunities to bring the plant to full operating capacity.

A critical issue continues to be the lack of skilled production personnel to meet planned production needs. The local industry association is attempting to address this issue by hiring a coordinator to work with individual firms and government to develop training programs and long-term human resource plan.

Five departments representing both levels of senior government have agreed in principle to support this initiative.

Food Processing:

As in the previous quarter, the industry is gradually showing signs of recovery. It is expected that 1993 sales will reflect a nominal increase for the largest processors.

Smaller and medium-sized companies, however, appear poised to take advantage of new market and export opportunities. Some medium-sized firms stand to increase sales by 50% should export (offshore) and domestic projects come to fruition.

Recognition of the potential importance of exporting continues to be evident in several ways. Thirteen companies will be participating in a NEBS mission to Minneapolis this month. Strong interest is being shown in the need to develop and market value-added food products.

There is concern among producers of heavy losses from this year's crops due to poor weather conditions and the infestation of wheat crops with fusarium head blight. Damage, while

anticipated to be substantive, is not known at this time. Processors and consumers are not expected to be adversely impacted by the poor crop conditions.

OBSERVATIONS

The Give And Take Of Gambling:

Legalized gambling in Manitoba is generating much needed revenues (about \$83 M which represents 4.5% of all Manitoba collections). However, the Filmon government recently announced that it will spend \$2.5 million to help treat roughly 30,000 (and growing!) pathological gamblers in the province.

Government Debt and Childbirth:

Reform party leader Preston Manning during a discussion of government debt: "Doctors used to spank a newborn to get its lungs working. Concerned about possible charges of child abuse, doctors now simply whisper in the baby's ear that, since he's arrived, he already owes more than \$17,000 to the government. Understandably, this gets the baby crying."

NAFTA Nod Hinges On Federal Cash:

Former Industry, Trade & Tourism Minister Eric Stefanson stressed that Manitoba will continue to oppose NAFTA until it obtained satisfaction on labour and environmental concerns, and received assurances that Ottawa would fund adjustment programs to help the province's workers and businesses adjust to liberalized trade.

BRITISH COLUMBIA

INDUSTRIAL INTELLIGENCE REPORT

OVERVIEW

The B.C. economy is performing relatively well: GDP growth forecast at 3.2%; exports continue to rise (year-to-date levels 13.2% higher than last year); manufacturing shipments up almost 10% from last year; retail sales 9.2% higher than last year. Unemployment remains high, increasing to 10.3% in July from 9.8% in June.

With mixed economic signals, retailers, small manufacturers and real estate contractors, for example, are "cautiously optimistic" -- even contractors in the boom residential housing market are cautious. Still expecting record level of housing starts--43,000. Business is concerned about taxes (especially property and GST). Lack of venture capital is a problem restricting corporate growth.

Uncertainty creating turbulence; the federal election, the deficit, an unstable dollar, regulatory changes (i.e., firms continually analyzing new rules for their impact on international competitive position) and unresolved native land claims (industry feels ignored and not part of the process).

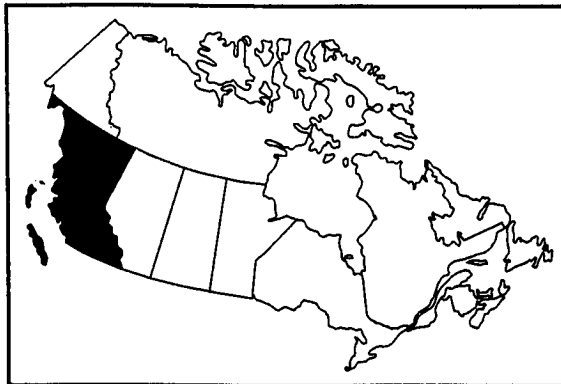
Job creation looks good, but they're not good

jobs. Low-end service oriented--part-time, not knowledge intensive or high value.

Retailers feel severe threat from "mega" chains (like COSTCO and HomeBase).

INDICATORS

Days lost in work stoppages down dramatically--60.1% below last year.



Exports (despite the fact that gross numbers are going up) are falling as proportion of GDP--from about 33% in 1980 to under 20% in 1992.

Business confidence is up (more buoyant than consumers'), but it's not evident in long term investment because of view economic growth floating on artificial

cushion.

Housing market--interest rates aren't having a stimulative effect. In the Okanagan, list-to-sell times have doubled over that of June; prices are down but people still resist having to "buy up" in retirement.

Industry suggests value of downtown office buildings dropped 15% in Vancouver over the past 3 years. But good news for lessees.

BRITISH COLUMBIA

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Hotels anticipating change in business travel due to advances in telecommunications (e.g., video conferencing). Undecided on impact.

Provincial government and Crown Corporations represent one third of the computer service market in B.C. Government's trend towards make vs buy systems means shrinking opportunities for firms.

Work is beginning on a new container terminal in Roberts Bank--a \$206M project.

16 construction cranes visible from ISC Vancouver office!

MOOD

High taxation level is the #1 concern; business feels it is "TAXED TO THE MAX!". There is open talk of how to avoid the GST; concern about certain growth of the underground economy which is tax evasion driven.

Business keeps looking for the restoration in consumer confidence but it's not showing up in the bottom line--"We don't believe the economists and statisticians because consumers don't". People are still paying down debt. Budgets are tight and customers reluctant to try new products--even export customers.

Business leaders have voiced the opinion that welfare is out of control, is subject to excessive abuse, and is a disincentive to work.

KEY SECTORS

Resources:

Forestry: Normal summer slowdown; wood business good; pulp and paper abysmal. Lumber prices down due to low U.S. housing starts--prices now at July 1992 level. Demand from Japan expected to strengthen; Europe mediocre. Energy prices (gas) expected to rise substantially. Labour costs stable till contract renewal next year.

Mood is cautious. Customers are pessimistic; manufacturers are pessimistic. Uncertainty over supply sources, decreases in annual allowable cuts are having an impact; provincial resource licensing too open to political interference. Native land claims a major worry, more so than new competition from Russia and Chile. Main competitors are foreign companies not Canadian companies with the same cost structure and supply restrictions. Demand from Europe and Japan for less chemically treated products being enforced--distinct advantage for our red cedar producers.

Fletcher Challenge upgrading Crofton mill with \$15M paper machine conversion to enable it to enter the directory market.

Mining: Continuing decline in profitability, costs increasing, product prices stable at best (mostly declining) and quality of ore reserves slowly declining. Confidence is poor. Industry feels it is "spinning its wheels". Mood is one of increasing frustration, feels government has

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turned its back.

More mines closing than opening; most new mines are overseas. More layoff notices: 94 employees at Gibraltar Mines (Sept), 195 at Cominco in Trail (Nov.). Suppliers and distributors to domestic mining sector who can't move offshore are shrinking or closing.

Taxes and B.C. government policies key issues; industry depressed by recent court decisions (e.g., Windy Craig) and uncertainty over native land claims.

Fisheries: World glut of salmon is depressing prices. Roe herring relative bright spot. High production costs are forcing companies to improve productivity.

Manufacturing:

In the wood and machinery sector, R&D intensive companies are cash strapped and would benefit from being able to transfer (sell) their R&D tax credits.

Hitech/Communications:

Business confidence is higher than in other sectors because the B.C. industry hasn't experienced the slowdown elsewhere in the country. Consumers increasingly price sensitive. Major suppliers focusing on expanding market share. Real growth potential in service complete solutions) driven by buy vs make orientation of private sector and federal government.

Industry perception is that B.C. government does not respect high technology companies and is ambivalent on support to this sector as a means of stimulating the economy. Companies finding it more difficult to get financial support from Western Diversification.

Provincial labour code changes make it far easier for unions to become certified in B.C., adding to the (often indirect) cost of labour which is driving companies to relocate where climate is better.

B.C./Canada provide good incentives for doing R&D but no incentives to set-up manufacturing facilities which may encourage some migration of manufacturing.

Services:

Tourism Operators say this is a better year for tourism despite poor weather. "People in Canada don't want to spend money". Industry has had to increase value for price. U.S. to Canada traffic up. Growth in transportation and accommodation sectors, but food and beverage sector weaker, blamed on GST. Ecotourism still fastest growing area.

Businesses reducing fulltime employees in spite of pickup in tourism--labour prices are high and margins are smaller everywhere. Better profit performance (or not-so-bad loss performance) is due more to persistent cost-cutting than increasing revenues.

BRITISH COLUMBIA

INDUSTRIAL INTELLIGENCE REPORT

Environmental Services:

Firms forming consortia in Asia--Philippines, Indonesia, Malaysia, Vietnam. Some extend beyond BC (Vietnam - BC and Quebec, Indonesia - nation wide) and environmental services (engineering, mill process, equipment manufacturing). A significant change: "Companies are really talking to each other now to go after this market." Poor outlook for firms relying solely on local/regional markets.

Demand for environmental consulting to support B.C. government's environmental and land use planning initiatives (CORE, Protected Area Strategy) offset by severe cutbacks in capital works projects (highways) and related environmental work. Industry holding back on investing in projects with environmental implications. Green Plan and other federal funds earmarked for environmental assessment and clean-up in BC (Fraser River Basin) have not materialized; perception is funds diverted to Aboriginal Fisheries Strategy; firms concerned about lost opportunities and damage to Canada's "green" image internationally.

Companies concerned about federal government's reported intention to withhold payment to the World Bank.

This could effectively cut out Canadian firms from front end environmental consulting work in developing countries.

Concern over entry of big management consulting firms to environmental auditing business.

OBSERVATIONS

Dealing with the deficit (and it's tax consequences) is still a major concern among business leaders. Whoever wins the election must get this under control and reduce the size (if not the role) of government.

Working people have developed a real siege mentality, can't escape from the relentlessness of taxes and increasing government interference. Some feel that the public has been "hung up by the ankles and has been drained for all their worth" (an extreme view).

The B.C. Cabinet has undergone structural changes designed to appease business, introduce practical approaches to job creation, reassure taxpayers of efficient government and reinforce commitment to environmental stewardship.

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ALBERTA

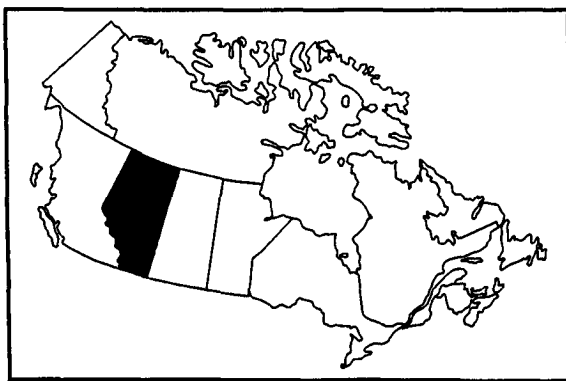
INDUSTRIAL INTELLIGENCE REPORT

OVERVIEW

In its July Canadian Outlook, the Conference Board of Canada made significant downward revisions to growth forecasts for Canada in 1993 and 1994. However, they feel that prospects for Alberta in 1993 and 1994 are among the best in the country.

The Board's forecast for growth in real domestic product for Alberta is 4.6% in 1993 and 3.4% in 1994. These growth rates compare respectively with 2.8% and 3.0% for Canada as a whole.

This strength in Alberta is based mainly on strong recovery in the oil and gas industry, with drilling at mid-year up about 60% over the same period in 1992. Growth in manufacturing is also expected to be strong and, with agriculture, construction and utilities also expected to show good growth, the goods producing industries in Alberta are projected to grow 7.8% overall. Service producing industries are forecast to show growth of 2.4% in 1993.



INDICATORS

Alberta has a population of 2.6 million and a labour force (August 93) of about 1.4 million. In 1992, GDP was \$69 billion, exports \$17.7 billion, manufacturing shipments \$19.4 billion and retail trade registered \$19.6 billion.

Oil rigs actively drilling are a good barometer of the Alberta economy. The average number of rigs drilling in the January to March period was up 91% from the corresponding quarter in 1992. Drilling activity remained strong in the second quarter with well completions more than double the previous year. In August 1993, there were 168 rigs actively drilling in Alberta.

Total housing starts at 18,573 were up 49% in 1992 and building permits were up 17.5%. However, construction activity has slowed significantly in the first half of 1993.

Public and private investment was estimated at \$20 billion in 1992; investment in manufacturing showing an increase of 14% over 1991 with food and beverages, wood products and other manufacturing being especially strong. Some major projects in forest products, agrifood and chemicals are included.

ALBERTA

INDUSTRIAL INTELLIGENCE REPORT

MOOD

There is considerable optimism in Alberta that the provincial economy is strengthening. Key sectors are performing well. However, there is concern about jobs and consumer confidence remains weak. Albertans are also concerned about provincial cutbacks. NAFTA and free trade generally finds support in this province despite sporadic USA/Canada trade disputes.

The basis for optimism in the Alberta economy is strengthening in the oil and gas sector. The forest sector also looks good for the long haul. Agriculture, however has now turned gloomy on the crop side due to poor weather conditions for harvest. Manufacturing has strengthened with new investments in key industries, shipments showing a 6.5% increase in the first five months of 1993 and indications that considerable diversification is taking place.

KEY SECTORS

Resources:

The oil and gas sector in Alberta is currently showing strong performance and the outlook is positive. The Canadian Association of Petroleum Producers cites several factors, including improved prices for natural gas and an estimated inflow of \$3.5 billion in equity funds to the sector in the first half of this year. Other factors, according to the Petroleum Services Association of Canada, include royalty holidays extended by the Alberta Government, lower Canadian dollar, relatively stable oil prices,

downsizing by the majors and restructuring of the industry nearing completion, and the search for oil and gas through trading in properties showing a decreasing trend in favour of drilling which has now become cost competitive.

Oilweek's mid-term review shows that rig activity is up, utilization is up and completions are way up in 1993. Their earlier prediction of 5,500 wells is more likely to be 7,000 instead. A recent land sale (June 23), fuelled in part by rumours of a hot oil discovery in Kananaskis, set a record going back to 1977. The drilling emphasis is now expected to change, with natural gas dominating into 1994. Shipments of natural gas to U.S.A. increased by 21% in 1992 and continue to grow in 1993. Exports now exceed domestic sales and natural gas faces excellent prospects as an environmental friendly fuel. Confidence in the industry rises as pipeline capacity expands and prices are expected to stay firm for the next several years. The average Alberta field price was 1.64 (\$\GJ) in May 1993 and growing.

The performance and outlook for forest industries in Alberta continues to be positive. Higher prices are expected to continue, primarily because the fundamentals of North American timber supply have changed dramatically with the July 1 announcement by President Clinton restricting timber supplies from U.S. national forests. Given recent interest by both overseas and Canadian investors, substantial growth in Alberta is expected in the sawmilling, panelboard, value-added and specialty lumber products including

INDUSTRIAL INTELLIGENCE REPORT

aspen and other hardwoods.

The outlook for pulp and paper, by contrast, is much weaker as this sector continues to suffer worldwide from over-capacity and low prices. However, Alberta will continue to see some expansion as the ALPAC facility near Athabasca comes on stream and because of commitments and developments already underway. Yet, despite these developments, the Alberta forest industry is likely to see only modest growth in employment over the medium term. Job creation will come from new productive facilities rather than existing plants.

Manufacturing:

Alberta's manufacturing sector continues to improve. Exports rose by about 2% in 1992 and are projected to grow by 5% or more this year. One of the largest increases last year was posted by forest products whose exports grew by 20% and are projected to grow by a similar amount in 1993. Oilfield equipment is also a niche market which is strong, spurred on by both export and domestic demand.

The value of manufacturing shipments during the first half of 1993 was up 6.5% over the corresponding period in 1992. Food products and forest industries were especially strong, with chemicals and refined petroleum products also showing good recovery in 1993. Employment in manufacturing was 99,000 in August, up 10% from the corresponding period last year.

The apparel sector in Alberta provides an example of an industry that is successful in certain niche and specialty markets. For industrial clothing, orders are up significantly; in some cases as much as 50%. Consumer apparel, however, is mixed. The apparel industries association expects investment to be 25/30% higher than last year but only about 5% growth in jobs. With major emphasis on efficiency, the association is encouraging new technology and employee and management training.

The view from the CMA is positive for manufacturing; prospects are improving for its members, downsizing has stabilized for most firms and, with improved cash flows, companies are now beginning to spend money on projects budgeted but on hold over the last three years.

Advanced Technology:

Exports of environmental products and services are growing, partly due to U.S. and European regulations which have stimulated demand abroad. Considerable investment is taking place in this sector in Alberta, led by the expansion of the Swan Hills waste treatment plant. Overall investment is expected to be up 25% from last year. New plant, however, is capital intensive, resulting in an expected job expansion of only about 5%. A further concern of the industry is inter-provincial trade barriers.

The medical device industry in Alberta faces some difficulties as an emerging sector. The

ALBERTA

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industry remains concerned that recent government spending cuts have affected the demand for products marketed to government funded hospitals and institutions. However, with quality niche products and targeting of markets modest growth is expected for this industry over the next few years.

Services:

Consumer contacts report that some of the rural Co-ops in northeastern Alberta have closed, citing hard economic times. Some small businesses, such as bakeries in the St. Paul/Bonnyville area, also have had to close. On the other hand, during recent inspections of retail food stores west of Edmonton the mood was upbeat. Retailers reported sales increases at locations as far west as Jasper.

Tourism sector reports for the year to date in Alberta are positive: A mid August survey by the Calgary Convention and Visitor's Bureau shows the accommodation, transportation and attraction sectors had an increase in activity of five to ten percent over last summer. Interviews throughout the province indicate that the business improvement was widespread. Group tour business is up. The US is a growth market with noticeably increased bookings, travel from Japan continues to be strong and some proprietors have had success in directly accessing the Australia/New Zealand market.

The following year-to-date statistics will illustrate the reason for renewed optimism in Alberta's tourism industry. US visitation

numbers are up 9% over 1992 while visits from other countries show an 8% increase. Historic site and museum attendance is up over 30%. Restaurant receipts show an increase of 7%. Calgary reports that two major conventions alone brought 12,000 delegates and an estimated boost of \$11 million to the city.

Significant tourism investments are planned or underway, particularly for southern Alberta. Calgary continues to report renewed interest in the development of a new convention centre. Environmental issues are still of concern, primarily with respect to proposed investments for Canmore and the mountain parks generally.