



SASKATCHEWAN REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

Saskatchewan's economy continues to reflect its resource-base nature despite efforts to diversify from the traditional grain, potash, oil and gas and uranium. Vulnerable to variable market and climate conditions, Saskatchewan's GDP declined for the second straight year to 0.8% in 1992. In 1993, some encouragement has been seen; 1.7% real GDP growth is forecasted, mainly due to strong growth in mining, manufacturing, exports and a recovery from below average agricultural production achieved in 1992.

The modest gains in 1993 were led by increasing exports and limited consumer recovery. From January to October 1993 over the same period last year, exports from front-end products originated in Saskatchewan are up 69.1%, crop receipts are up 4.2%, livestock receipts up 16.5%, manufacturing up 5%, housing starts are up 27.6%, service sector receipts up 5.8% and retail trade increased 5.4%. Various indicators (employment, manufacturing shipments, domestic exports, housing starts) are all up over same period in 1992. The provincial government is targeting a 2.8% GDP growth in 1994.

INDICATORS

Saskatchewan's population declined from 1989

to 1991 and stayed flat in 1992 as natural population growth offset net out-migration. In 1993, the population dropped 2,900 from 1,004,500 in third quarter 1992 to 1,001,600 in the third quarter of 1993, a 10-year low. Out-migration continues to offset population increases through natural increases (birth less deaths) and in migration on a year-to-year basis.



Employment declined by 2% in 1992 but should increase by a modest 0.3% this year. Most employment losses occurred in the first quarter of 1993, particularly in agriculture (5,000). Strong employment growth in the final eight months acted as a

balancing influence. Approximately 1,000 more people were working during the period January-November 1993 than the year previous. At 8% unemployment for 1993, Saskatchewan still maintains the lowest rate in the country.

The end of construction of several megaprojects in 1992 show a continued decline in building permits during 1993. Housing starts decreased 31.7% from October 1992 to October 1993. Little improvement is expected in 1994, and even though housing prices jumped 7.1% in January, Saskatchewan is still the cheapest place to buy a house in the prairie cities. Annual percentage change in cumulative housing starts to October 1993 are

Saskatchewan -0.7%, Canada -8.4%,
Manitoba -6.5%, Alberta 1.6%.

The return of some consumer confidence is reflective in a 5.4% increase retail sales for a 12-month period ending October 1993. This was the strongest cumulative retail sales growth in the prairies.

The recent announcement of stabilized transfer payments for the next 12 months is encouraging to provincial government deficit reduction measures for this fiscal year and the next three years.

MOOD

The modest gains made in the Saskatchewan economy in 1993 has provided some optimism in the province. A survey was conducted by the Saskatoon Chamber of Commerce in December 1993, indicated an expectation of an increase in business volumes. Closures and lay-offs continue to have an adverse effect on optimism. Royal Bank, Kresge's, CAMECO, Motorways, Coca Cola and Northern Telecom have all announced job losses or closures since November 1993. Consumers are seeing more and more of their disposable income decrease with further increases in utilities, tax and insurance premiums.

KEY SECTORS

Resources:

Saskatchewan production of major specialty crops was a record 1.25 million tonnes last year, up 69% from 1992. Recent canola price surge to more than \$8 per bushel has added optimism. The increase followed a U.S.' Department of Agriculture report that the soybean harvest was down 17% from the previous year due to heavy flooding. Saskatchewan farmers planted a record 4.3 million acres of canola last spring and harvested a record 2.5 million tonnes.

Canada/U.S. marketing issues continue to be a concern as an international dispute over durum heats up. President Clinton has called for Canada/U.S. officials to deal with this issue or he will instigate trade investigations that carries with them the possibility of quotes on Canadian wheat if U.S.'s concerns were not addressed. Canadian durum wheat exports to the U.S. have increased significantly in recent years. Last year, more than 500,000 tonnes of durum was shipped to the U.S., capturing about 20% of the market. High quality grain continues to be scarce, and prices continue to climb.

Mining output is expected to have increased strongly in 1993. Oil production continues to increase in Saskatchewan on a year-to-year basis despite movement to lower oil prices over the past few months. There have been 1,900 wells drilled from January to November this year spurred by horizontal drilling, compared with 594 wells in the same period in 1992, an increase of 225%.

Over 1993, potash production dropped due to low demand in Europe and India and increasing competition. It is anticipated that flooding in the U.S.' midwest could improve future prospects.

Uranium production has been relatively consistent since 1992. Declines were seen with a maintenance shut-down at Cluff Lake during January and part of February 1993. Conditional approval has been received for a proposed underground mine and mill at McClean Lake. Other developments are under consideration by the Federal Environment Assessment Panel, industry and the provincial government.

Manufacturing:

Shipments of manufactured goods have increased by 4.9% in the first eight months of 1993. There was significantly higher shipments of machinery, transportation

equipment, textile, clothing and wood products but lower shipments of food, beverages, chemical products, fabricated metals and electric products. Beverage shipments were negatively affected by the closure of the Labatts' operation in Saskatoon in May 1993.

Northern Telecom fibre optics plant in Saskatoon has been sold to Corning Inc. of New York and Siecor Corp. of North Carolina. The company will phase out 29 jobs as it moves its optical connector production to Monterey, Mexico. It will focus its Saskatoon operations on the production of optical cable.

The metal fabricating industry had a better year in 1993 than 1992 and is looking forward to some modest increase in sales in 1994. The majority of growth was in the agriculture machinery sector with sales increasing significantly due to the 10% investment tax credit that expired at the end of 1993. There is a strong lobby to reinstate this incentive. There currently is an influx of promoters from U.S., cities and states offering considerable incentives for companies to locate in their respective areas. Tax holidays up to seven years, custom built buildings at no cost for three years, free paved parking lots and non-unionized high productivity labour are just some of the carrots being offered in attempt to attract firms to their area.

Weyerhaeuser has announced that it will spend \$128 million on its Prince Albert pulp and paper mill over the next eight years to meet new provincial air quality standards. Phase I will begin in 1994 and will cost \$16 million. Two or three million dollars will also be spent over the next year to expand recycling capacity at the mill. Production of up to 100,000 tons, incorporating 10% post consumer fibre could be achieved by mid 1995.

Services:

Information Systems Management Corporation (ISM) last month signed a 10-year, \$1 billion contract with National Bank to handle

information processing for the Montreal-based financial institution. The Regina-based ISM, along with its parent IBM Canada, will take on the bank's 350 information processing staff and its Montreal data centre. Terms and conditions and transfer of operations are expected to be concluded April 1, 1994.

SaskTel has already made several successful in-roads into the international marketplace through SaskTel International which has worked on major projects in the Phillipines, China, Tanzania and the Channel tunnel in Great Britain. SaskTel this year increased its holding in LCL Cable Communications in Leicester, England, and now owns 55% of this company. This move to diversify investments hopes to offset revenue losses from traditional sources expected in the future.

Restaurant, caterer and tavern receipts are up 5.8% in January to September 1993 over the same period in 1992.

OBSERVATIONS

The Canada-Saskatchewan Infrastructure Program Agreement was signed on January 14, 1994. The Agreement calls for \$57.71 million from the federal government, which is to be matched by the Province and local governments. A total of \$173 million could be invested in Saskatchewan projects and that could create as many as 2,000 direct jobs. The program is designed to meet infrastructure needs with specific attention given to the needs of local governments. Private sector participation in local infrastructure development is also possible under this program.

An Export Trade Agency is on the provincial government's agenda with legislation slated for the sitting beginning next month. It is expected that the Economic Development ministry's trade and budget staff will be shifted to the new organization. Other government departments with money currently targeted

towards international business development will likely take similar transfers. The new corporation would also have private sector involvement, through membership and user-pay services. It is expected that this new approach would bring the delivery of trade and export services closer to the private sector.

IPSCO Inc. will invest \$7.8 million in a dedicated finishing line for its 24-inch (61 centimetre) mill in Regina. This investment is based on an order of 39,000 tonnes of 20-inch (51 centimetre) diameter pipe for Interprovincial's western expansion program to Regina from Hardisty, Alberta. IPSCO is also planning to develop a 209,000 tonne per year flat-rolled steel mini-mill with the Mannesmann Demay Corp. in the U.S.



QUEBEC REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

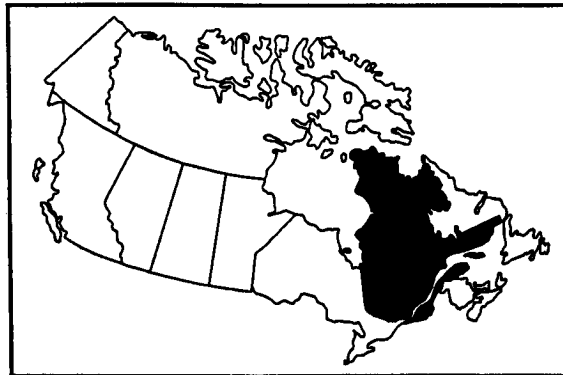
OVERVIEW

The Quebec economy continued to show signs of modest recovery at the end of 1993, but the picture, unfortunately, is not entirely rosy. Economic growth has been achieved primarily through gains on export markets, while domestic demand remains very low because of long-awaited job growth which has yet to materialize, as well as high unemployment. Moreover, the political uncertainty surrounding the results of the next provincial election (which must be held no later than November 28, 1994) is a source of concern to business people.

INDICATORS

In the third quarter, the province's deseasonalized real GDP grew at an annual rate of 3.25%. This relatively strong performance compares favourably with the annual rates of 2% in the second quarter and 1.6% in the first quarter. Weak domestic demand, however, resulted in only 1.2% growth in Quebec's final domestic demand in the third quarter. The value of manufacturing deliveries in October and November 1993 was 11.6% higher than in October and November of 1992. Even energy consumption (all types, in terajoules) by the manufacturing sector was up 8% in the second trimester of 1993, compared to the same period in 1992. Commercial bankruptcies were also down significantly (14.6% less in the first 11 months of 1993 versus 1992).

Economic growth was fuelled by international exports in 1993 (increase of 5.3%), while the rate of growth of the provincial GDP is expected to be only 2.8% (2.1% in real terms). Growth in exports is expected to continue in 1994. This strong performance in export markets explains why a number of firms queried by the newspaper *Les Affaires* reported that their third-quarter net profits were 85% higher in 1993 than in the previous year.



The job creation situation remains very disappointing (an increase of only 6,200 jobs in 1993). There were 95,000 fewer jobs in the province in 1993 than in 1990; moreover, 10,000 jobs disappeared in Quebec in December 1993 (deseasonalized datum), while 24,000

jobs were created in Ontario. The *Mouvement Desjardins* predicts a slight improvement in 1994, with the creation of 47,000 new jobs primarily in small- and medium-sized businesses.

Only 2,033 housing units were built in November—the lowest level of activity for the month of November since 1981. CMHC reported a decline in housing construction in Quebec for the sixth consecutive year, as housing starts totalled only 35,000 in 1993. A slight improvement is anticipated for 1994, when housing starts are expected to reach 39,500.

Total investment is expected to increase in 1994, as a number of major projects get under

way (the Laforge-Deux hydroelectric project and various cogeneration plants, construction of the new Montreal Forum and of a convention centre in Quebec City, etc.)

One thousand two hundred and thirty small manufacturing firms were created in the province in 1993, primarily in the clothing, printing and metal product sectors.

MOOD

With unemployment at 12.8% in December (approximately 13.1% for all of 1993), close to 470,000 households on social assistance, projected wage hikes of 1.3% for unionized employees, and almost daily announcements of layoffs, the Conference Board of Canada's household confidence index remains very low in Quebec (95 versus 105.5 for Canada as a whole in the fourth quarter). According to the *Conseil du patronat du Québec*, however, business people are slowly regaining hope. In December, for example, 28% (versus 19% in July) of business people felt that economic conditions in general were good to very good, while 42% of respondents described them as fair. Moreover, 44% of respondents thought that economic conditions would improve over the next six months, while 50% anticipated no change.

Most analysts expect real growth in the provincial GDP on the order of 3% to 3.5% in 1994 (the Royal Bank went as high as 4.1%).

Quebec residents expect the following from the next federal budget: no tax increases, elimination of duplication between various levels of government, practical measures to promote rapid job creation, fiscal equity, and active efforts to combat fraud and smuggling.

KEY SECTORS

Resource industries

The agricultural sector is somewhat concerned about what effects the recent GATT agreement will have upon it. The *Union des producteurs agricoles* believes that the setting of import tariffs (in place of quotas) will have a determining impact on a large share of its members in 1994.

The Quebec mining industry is still vulnerable to competition from developing countries, particularly in Latin America. The industry is also concerned about the mandatory holding of public hearings on new mining projects, fearing that the addition of procedural delays could result in even more international mining capital being invested elsewhere. According to the Quebec Mining Association, the adoption of Bill 142 will result in a 10% to 15% increase in mining companies' construction and operating costs.

Unable to do anything about prices, which were at an all-time low in 1993, the aluminum industry in Quebec focused its efforts on cutting production costs. The industry as a whole is competitive in Quebec, however, and is operating at full capacity because of demand from the U.S. automotive industry, whose aluminum consumption increased 2.5% in 1993 to almost the same level as in 1988. The Sural company of Venezuela recently announced the construction of a major aluminum plant.

After getting back on the road to prosperity in 1992, lumber mills benefited from favourable economic conditions and the production level in 1993 is believed to be very close to maximum capacity for the industry as a whole. Because of strong U.S. demand, 1994 is expected to match 1993 in terms of activity and profits. This favourable situation stems from an increase in the demand for construction lumber because of massive housing losses in some States (caused by

a number of indications that the situation will be even better in 1994, and the ratification of NAFTA is widely perceived as very beneficial to industry growth in the medium term. Entrepreneurs in this industry are keeping a close eye on the currency exchange rate, the shortage of qualified technical labour in Montreal, interest rates (which must remain low in order not to put any undue strain on the working capital of small- and medium-sized businesses), and the maintenance of government programs such as PEMD and export financing and insurance. All emphasized the usefulness of R&D tax credit programs. Ericson Communications recently announced that it was investing \$94 million in cellular telephone technology research in Montreal.

In the software industry, 1993 was a difficult year. According to the *Fédération de l'informatique du Québec* and the *Centre de promotion du logiciel québécois*, activity bottomed out in recent months and is now starting to recover (i.e., job offers in the newspapers for specialized programmers, increasing number of tender calls for the development of informatics systems, etc.). According to some sources, the main threat to the Quebec software industry is now the elimination of tariff barriers, which will make it possible for major U.S. firms to compete against local companies for procurement and service contracts.

Pharmaceutical firms enjoyed a boom, and the Swedish firm Astra AB in January announced a research investment of \$100 million over 10 years. According to the *Groupement provincial de l'industrie du médicament*, 1993 was a good year in terms of both domestic and export sales. Employment has risen in this industry. Certain proposed changes in provincial government regulations (e.g., the "Drug Identification Number—DIN" issue), however, could result in very substantial costs for small- and medium-sized businesses in this sector. Also, some Ontario barriers to interprovincial trade are still a problem. A number of the firms consulted even noted that

the lack of financing guarantees for exports was hampering development of the sector.

The *Association des entrepreneurs de services en environnement du Québec* noted that the situation in the environmental sector is now stable. Some firms are looking forward very optimistically to 1994 in terms of domestic sales (paper mill pollution reduction projects driven by regulatory deadlines) and exports (following the signing of contracts with Mexico and Colombia).

Services

The Greater Montreal Convention and Visitors Bureau noted that business travel accounted for a 2% rise in the number of tourists compared to 1992 and a 5% higher hotel occupancy rate for Metropolitan Montreal in November and December of 1993 by comparison with the same period in 1992. Based on the present value of our dollar, the *Hôtellerie Champêtre du Québec* association anticipates a 10% sales increase in sales and a 10% to 15% rise in profits in 1994.

Although retail sales were 5.2% higher in the first 11 months of 1993 than for the same period in 1992, the extremely high rate of unemployment and the large number of people receiving social assistance, as well as consumer fears about job security, have been major impediments to recovery in this sector. The establishment of alternative sales networks (warehouse stores such as Price Club and Reno Dépot, the opening soon of 20 WallMart stores, etc.) maintaining downward pressure on prices, high tax levels in certain cities such as Montreal and stagnant real household income levels will continue to weigh heavily on commercial sector profits in Quebec in 1994.

OBSERVATIONS

- On November 30, 1993, the provincial government announced the establishment of a three-year program, with a budget of over

\$1 billion, to revitalize economic growth and stimulate job creation. It is hoped that this initiative will create 47,000 new jobs, thereby reducing the unemployment rate by 1%.

- According to the *Ordre des comptables agréés du Québec*, federal, provincial and municipal government indebtedness is such that each man, woman and child in Quebec has an accumulated debt of \$21,090.

- A recent study conducted for the *Office de la langue française* found that 65% (an all-time high) of the province's economy was under Francophone control in 1991, compared to 47% in 1961.

- The latest biannual survey by the *Conseil du Patronat du Québec* (CPQ) indicates that business people are becoming increasingly impatient with government spending and deficits. According to the President of CPQ, "entrepreneurs even use obscene language" in describing their irritation with the deficits and expenditures incurred by both levels of government as well as with personal income tax rates. The same survey found that the four factors of greatest concern to business people are, by order of importance: productivity, general government policies, the foreign exchange rate and interest rates. Quebec's language policy and the free trade agreements did not present a problem, according to the President of CPQ.

- François Vaillancourt, Professor of Economics at the University of Montreal, claims that the underground economy has been growing steadily since 1976 and now represents 8% to 13% of Canada's GDP. This percentage is well below the 20% figure suggested by Richard Le Hir of *L'Association des manufacturiers du Québec* (based on manufacturers' own insights). A Gallup poll found that 42% of Quebec respondents claimed to have avoided taxes in the past year by paying cash—the highest such percentage among all regions of Canada. This result probably reflects the huge amount of contraband cigarettes that are sold in the province.

natural disasters) and insufficient U.S. domestic lumber supplies (due to logging restrictions).

Manufacturing

According to the Quebec Furniture Manufacturers' Association, employment in the furniture industry increased from 11,000 in 1992 to nearly 13,000 at the end of December 1993, thanks to exports to the United States (exports increased approximately 10% during the last quarter). Although industry sales declined from \$1.46 billion in 1989 to \$1.22 billion in 1993, certain indicators (notably the number and behaviour of retailers who participated in the recent Toronto Furniture Show) point to better days in 1994.

Pulp and paper mills in Quebec are being kept fairly busy because of economic activity in the United States. The price of newsprint declined recently to its 1979 level, unfortunately offsetting, at least in part, any benefit which the industry derived from the depreciation of the Canadian dollar. This setback comes at a very bad time for the industry, which is currently under pressure to lower production costs and improve profitability in order to finance the acquisition of pollution control facilities and equipment required under environmental legislation.

According to available information, the machine tool industry is doing well as a result of exports, primarily to the United States, although some Quebec firms report interesting sales in Asia. The declining value of the Canadian dollar versus U.S. currency increases the profit margins of many firms and provides a cushion for lowering prices and thus gaining market shares. Firms contacted were optimistic about the coming year in the light of their fairly heavy order backlogs (from abroad and now also from Canada). One firm specializing in the manufacture of machinery for the forest industry reported a shortage of qualified industrial labour in the Beauce region.

The transportation equipment industry is generally in good condition, but the situation varies from one sector to the next. In the railway equipment sector, Bombardier reported a backlog of \$1.6 billion and the La Pocatière plant was operating at near-full capacity. Unfortunately, the closing of the GE Canada locomotive plant spoiled the picture somewhat. Prévost Car (motor coach) had a good year in 1993, but gave quite a few discounts. The firm hopes to increase its sales and market share in 1994 without having to hire more staff. Nova Bus was busy working on 300 city buses ordered for delivery to a number of urban transit companies. The automobile and truck industry is at full throttle. GM will be trying to increase Camaro and Firebird production to 800 units per day, and the industry's strong overall level of activity in North America is benefitting Quebec suppliers. The Kenworth truck plant doubled its truck production rate to 22 units per day, and is working on exports to Australia, China and Brazil. The future of the Hyundai plant, which has been closed since September, should be made known in the next few months.

The Quebec aeronautics industry is continuing to cope as best as it can with the crisis in the air transportation sector and cutbacks in military spending. Most of the firms contacted expressed guarded optimism, however, believing that the low point in the cycle was reached in 1993. All of the contacted firms expected to increase their sales in 1994, citing the value of the dollar, stable labour costs, lower interest rates and what they believe is increased plant productivity as factors contributing to this anticipated recovery. Nevertheless, few firms in this sector expect to hire additional workers.

High technology

All firms queried in the electronics and telecommunications equipment sectors spoke of rising exports, sales, profits, productivity levels and jobs. Some firms achieved 80% sales increases in the past year and nearly doubled their number of employees. There are



PRINCE EDWARD ISLAND REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

The economy of Prince Edward Island is based on agriculture, the fishery and tourism. However the federal government, through transfer payments, social programs and direct payrolls, is the major sustaining contributor to economic activity.

Reports show that 1993 saw a recovery in potato prices, increased tourism visitations and a solid lobster fishery (although prices paid to the fishermen were below 1992 levels).

Manufacturing shipments, exports and retail sales showed strength. Employment remained constant due to growth in the services sector. The fixed link is expected to provide a boost to local spending. On balance, private sector inputs created an attitude shift toward a mood of cautious optimism at year end. On the other hand the public remains concerned about the impact that government deficits and steps to correct these may have on their immediate futures.

INDICATORS

Maritime Electric reported electrical consumption increases in 1993 and anticipate further growth of 2.9% in 1994 partly attributable to the operational needs of the new GST centre.

Island Telephone Limited enjoyed greater than expected growth in subscriber line demand during the year just passed but expect this to return to normal yet positive levels in the coming year; the company sees the fixed link project adding impetus to the economy.

Housing starts in 1993 approximated the levels of previous years as expansion in the urban areas was offset by reduced activity in the rural areas. A small increase in single family dwelling starts is expected in the current year. Resale activity remained stagnant but continued low mortgage interest rates and the fixed link project are expected to generate a

10 - 15% growth in this segment of the market.

Human Resources and Labour Canada reports that sustained average annual employment of 53,000 remained unchanged over the year (but is down 4% from 1991). The participation rate fell slightly. Labour force reductions are expected to continue across all sectors except construction, trade and, possibly, community services. The average unemployment rate for 1993 remained at 1992 levels; i.e. 17.7%.

Retail sales (+5.1%) and new car sales trends have reversed from their previous downward direction.



Inflation remains at the 2.1% range. Gross Domestic Product remains steady with a 1994 forecast growth in the 3.5% range (Bank of Montreal).

MOOD

The consumer mood has changed from pessimism to caution. The "person in the street" believes that the fixed link project will create 400-500 local jobs but these will be of short duration and so will have little long term impact. Fears of budget deficits, higher taxes and further (provincial) government rationalization are contributing to controlled spending.

The Greater Charlottetown Chamber of Commerce recently convened a meeting of business leaders to discuss the performance of the economy in 1993 and prospects for 1994. The Chamber summarized the mood of the participants as one of "reasonable optimism." The fixed link, growth in food processing and tourism, the proposed federal government infrastructure program, low interest rates and the weak Canadian dollar will improve prospects for private sector activity while the major dampening influences will be probable federal and provincial cutbacks (provincial reform and reduced public sector spending).

KEY SECTORS

Manufacturing

Labour force reductions have contributed to improved productivity. Combined inventories, shipments and orders to September 30, 1993, are some 11.6 % ahead of 1992. The CMA reports that in 1993 Island manufacturers and processors enjoyed an export-led recovery and there is still pent-up demand to offer further improvements.

The Province has initiated steps toward the development of a new Economic Development

Strategy which may change some of the business and trade development programs, services, delivery systems and strategies now in place.

Fishery

The near term future of the fishery remains uncertain. The ground fishery with concurrent employment generated at the processing facilities, faces an unsettled 1994 following closure of the Gulf cod fishery, uncertainty about allowable by-catches and continued indecision about rebuilding the burned out Usen plant (the Island's largest seafood employer with exports exceeding \$17 million). Preliminary information indicates that lobster landings were only marginally below the previous year but a full inventory pipeline caused depressed prices and weakened markets. Processors are concerned that new lobster buyers representing fish hungry plants in other Provinces could disrupt traditional buying patterns for lobsters and crab which appear to be among the few relatively healthy fishery stocks extant. Disputes are possible over issuance of lobster fishing licenses, the native fishery and carapace sizes. On the positive side lobster inventories are believed to be nearer to usual levels and (assuming the cod by-catch problem can be resolved) dogfish and shark resources have shown opportunities for development. Efforts continue to develop profitable markets for healthy herring stocks. Finally the aquaculture (mussel) industry continues to grow.

Agriculture

Potatoes dominate the Island agricultural scene; good yields, exceptional prices and the continued growth of production at the Cavendish Farms and McCains facilities have stabilized this sector. Continued attention to quality and disease control are required to maintain our recovering market position. Some local concern exists over the impact of the final GATT agreement on the future of our dairy and poultry farmers and processors. The

hog industry remains marginal with inadequate production to meet the needs of the Garden Province Meats facility. Third quarter (September 30, 1993) farm cash receipts show general increases, over the previous year, across all agricultural subsectors.

Tourism

Statistical results indicate that, following a three year decline, 1993 visitations experienced a 10% growth. Some 625,000 tourists spent approximately \$110 million over the year. Ontario and Atlantic Canada continue to generate the greater part of P.E.I.'s tourism activity, with 124,900 (\$28.3 million) and 189,100 (\$26.7 million) tourists respectively. The 1994 outlook is optimistic; Provincial marketing planners project increases in traditional family visitations and will also target newer (i.e. seniors) markets.

Services

Most private sector firms in P.E.I. are small and cater to a local clientele. However, the service sector was the only one to show relative growth in employment in the past year. Factors included some increase in the part-time and casual health services and education (establishment of several new training programs) of labour forces and a recovery to earlier levels, in the accommodations, food and beverage field. The coming year is expected to bring reductions in service sector employment as provincial plans for reorganization in the health, public services and education areas are implemented.

OBSERVATIONS

The consumer mood has undergone a shift to cautious optimism. This is based on the bouyancy created by the recoveries in the potato and tourism sectors, the opening of the GST centre and the hope that the fixed link project will create jobs over the next three or four years. Manufacturers and processors also believe that they are poised for growth as there is considerable pent-up demand.

However, the mood is fragile, and if major layoffs are incurred because of the reorganization of provincial government education, health and social services activities; major cutbacks to federal transfers and social programs; or if new job creation continues to be of a part time and casual nature the recovery will not be sustained.



ONTARIO
REGIONAL INDUSTRIAL INTELLIGENCE REPORT
WINTER 1994

OVERVIEW

After five quarters of slow, but steady, economic growth, the Ontario economy is almost back to output levels last attained in the third quarter of 1989. Real growth during the past year is estimated at 2.6%. Weak consumer demand in 1993 was offset by strength in exports, which rose by nearly 14% in real terms. In 1994, exports, along with consumer spending, will continue modest growth.

While weak consumer confidence associated with concern for job security continues to restrain domestic spending, there may be some improvement. Ontario businesses reported 3% to 8% sales improvements over the pivotal Christmas period compared to last year. Homebuilders detect evidence of pent-up demand, which when tapped, will have significant implications for the home furnishings market. The expansion of any embryonic consumer recovery, which has implications for 42% of Ontario's output, however, could be easily halted by further job lay-offs or unfavourable government budget initiatives.

A further year of strong export performance in 1994 is expected to be led by the automotive and wood sectors. Assisting this performance will be price improvements, such as are already evident for a number of important export commodities - meat, lumber, steel,

textiles and automotive.

Investment and government spending remain essentially flat, although Ontario capital expenditures on new machinery and equipment showed real growth of 4.9%, particularly in the important manufacturing sector. Inventories are generally reported up.



INDICATORS

A review of leading indicators confirms the irregular nature of the recovery. The December Decima Report indicates that only 27% of Ontarians are likely to make a major purchase in the next 6 months. This indicator has not

changed significantly over the past three quarters, signifying that consumer confidence is still an issue. The January, 1994 Ontario Help Wanted Index was 87 (1991=100), the same as the year previous, and may help to explain this consumer sensitivity. Also, Ontario Social Assistance continues to rise, with December's caseload up 1.3% over the previous month to 674,612. Beneficiaries now number 1,327,760.

From a utilities perspective, Ontario Hydro reports demand for electricity, while slightly below 1992 levels on a weather-adjusted basis, has shown some strengthening of demand in the municipal and retail categories during the last six months of 1993. Only the direct

purchases component continues to decline, probably reflecting the significant cut-backs among large corporate users, such as INCO. Bell Canada, for its part, reports steady increases in Ontario residential hook-ups, although much of it is in-filling with secondary lines confirming the low level of residential construction activity. Large business hook-ups are reported to be fairly steady, but down for smaller companies.

Business indicators present the most promising outlook. The number of business bankruptcies were down 5%, with the liability value down 18%, over the first 11 months of 1993. During the same period, Ontario manufacturing shipments were up 8.8%, led by wood (18.3%), transportation equipment (17.4%), machinery (15.4%) and primary metals (15.4%). There is also ample anecdotal information of broadening industrial profitability and the stabilization of membership levels in industrial organizations, such as the Canadian Manufacturer's Association.

MOOD

Despite concern about continued weak domestic demand, the business community's outlook for the Ontario economy is one of cautious optimism. Export demand is strong and, with low interest rates, investment in machinery and equipment should grow and sales expand. Business is reluctant to hire, however, because of productivity concerns and the high cost of labour.

In contrast, the consumer remains just plain cautious. A lack of employment opportunities and job security combine to keep domestic consumer spending weak, with those having money preferring to save it. The personal saving rate was reported at 14.6 in the third quarter of 1993.

While the change in government in Ottawa is generally viewed as positive, there continues to

be a deep-seated dissatisfaction with the Ontario Government and its policies. Management of the Workers' Compensation Program and proposed employment equity legislation remain key business concerns. Possible tax increases in the impending federal and/or provincial budgets have both businesses and individuals wary.

KEY SECTORS

Resource-Processing Industries

The food and beverage industry has been performing at a steady pace, following an excellent growing season, firmness in commodity prices and strong export demand. Further good news is noted in the forest products sector. The pulp and paper segment, although still unprofitable, has seen the fall in demand and prices bottom out, while woods products experiences rising prices, profits and employment as demand continues to surge in export markets. There is some opportunity for new investment to add wood products capacity and carry out pulp and paper pollution abatement. Free trade initiatives have been viewed as positive in the forest sector.

Low commodity prices are plaguing much of the mineral processing sector as a result of overcapacity worldwide. Nickel, copper and zinc production is down as companies attempt to reconcile to the flood of Russian output in the market (INCO shut its Sudbury operations from mid-December to the end of February). While prices for precious metals - gold and silver - have been stronger, silver is frequently only produced as a by-product of other mining operations. Strengthening of the steel-related industries is evident. Producers expect additional sales improvement driven by the automotive sector and by national infrastructure program construction. Metal fabricators anticipate major export opportunities in Asia. Despite growing demand and improving profits, steel-related producers plan little employment increases and

only modest investments in capital equipment.

With the exception of the fertilizer and the synthetic plastics and rubber industries, certain aspects of which are able to benefit from strong export markets, the chemical sector performance has been generally flat. With little investment occurring, there is growing concern about the aging technology and declining competitiveness of the sector.

Manufacturing

The strong performance of Ontario's large automotive industry has been instrumental in helping the province through the recovery. Driven by strong U.S. demand and a drop in Japanese imports into North America because of the strong yen, motor vehicle shipments were up 20% in 1993, with significant productivity improvements. It appears that 1994 will be another good export year, accompanied by some recovery in the domestic market - 8% to 10%. Important developments include: new minivan production and the possibility of expanded operations at the truck facility by Ford in Oakville; expansion of Ford's Windsor engine plant; third shifts in Chrysler's Windsor minivan plant and Bramalea car plant; Toyota's expanded engine production in Cambridge; resumed operations by GM in Oshawa with new model lines; and the reduction of tariffs on power train components making it more attractive for Japanese transplant facilities to manufacture these items in Canada.

Reflecting the strong auto sales, autoparts manufacturers report good sales growth. The drive by auto assemblers to cut costs, however, has meant pressure on parts producers to keep their overhead down and minimize employment increases. There has been some investment activity, but many companies are opting to expand in the U.S. as they fear Ontario's new labour laws will interfere with their ability to do "just-in-time" delivery. The impact of Mexico through the North American Free Trade Agreement

(NAFTA) is deemed to be minimal because of prohibitive transportation costs and "just-in-time" delivery requirements.

NAFTA prospects are viewed positively by the tool and die industry, which anticipates opportunities as Mexico upgrades its technology. These companies, based on improving sales and the benefits of earlier investments in CAD/CAM, feel 1994 will be an excellent year. Along with the plastic moulding industry, they are utilizing this new computer design capability to better integrate themselves with their customer's engineering process and enjoyed growing success in the export market. Finding trained CAD/CAM personnel, however, remains a problem.

Business improvements are also evident in the machinery and capital equipment industries, which expect good sales gains in 1994 generated by the strengthening North American automotive sector and by new environmental legislation. Export demand will continue to be an important component of growth, with again considerable interest in Mexico. Some employment gains and new investment are projected, although those parts of the sector directly related to the depressed domestic construction scene share its hardships.

In consumer-oriented industry, the recovery continues to lag, particularly where the primary market is the domestic one. Clothing and footwear report a hard hit retail sector with many closings and depressed demand. Inventories are up and there is much concern about the impending effects of NAFTA. In contrast, the furniture industry, which has also suffered, is increasingly becoming U.S. oriented and keeping inventories low through "just-in-time" delivery. Whatever the industry, however, there are very few with plans to increase employment or invest. A common complaint among consumer industries is the poor availability of credit from financial institutions.

High Technology Industries

A rapidly expanding area of the Ontario economy, this segment continues to be a vibrant source of investment and jobs - although the latter is hampered by the availability of skilled workers. The information technologies industries foresee growth of 10%, but a high level of competition will keep profit margins tight. Active sections of the market are mobile computing and networking. The software industry continues to be buoyant.

Telecommunications, encouraged by U.S. demand, is optimistic about its prospects. The domestic market, while expected to grow, lags behind. This reflects the competition and regulatory issues that are causing significant restructuring within the service delivery area.

For most small, knowledge-based companies, access to capital remains a key issue. An exception appears to be in the environmental area where there has been some success in the equity market. Environmental technology companies are excited by the growing international demand for their products and foresee good opportunities for expansion among small- and medium-sized firms.

The defense-related sector, suffering from government spending cut-backs, remains the most depressed of the high-tech industries and must endure further down-sizing and re-focusing. Some recent sales by De Havilland is providing some hope that the domestic aeronautics industry is moving into recovery.

Service Industries

The retail sector, still in the throes of restructuring after a sustained downturn in consumer demand, faces a new challenge of competing with large, specialized U.S. retailers, such as Wal-Mart and Limited Inc., who are moving into the Canadian market. Major dislocations in the labour market will continue as businesses rationalize operations or

close. These adjustments will be further impacted by the slow growth in consumer demand.

The Toronto and Niagara hospitality industries, with strong improvements in hotel occupancy rates, led the province in a year of better performances. Non-resident, one-or-more nights visits to Ontario were up 5-6% on a year-to-year basis during the last half of 1993, while Ontario out-of-country visitations were down by about the same amount. Business travel remains an area of concern, which has been hurt by government restraint, company downsizing, increased use of telecommunications and business austerity measures. Business travel is expected to increase in 1994, but not at the rate of pleasure travel, which is forecast to rise by 3%.

The construction industry, particularly in the Greater Toronto Area, has remained mired in the recession throughout 1993. Ontario housing starts were down 20% from 1992, while commercial vacancy rates were above 20% in Metro Toronto. The outlook for residential construction appears somewhat brighter for 1994 as CMHC is forecasting new starts to return to 1992 levels of 53-54,000. Resales are also increasing as lower values and interest rates are helping. The national infrastructure program will help to alleviate the continuing woes of the non-residential industry, which does not expect to see significant new activity for several more years.

In other service areas, finance and insurance industries continue to perform profitably. Export opportunities have helped to sustain the engineering and project management industry, which should now get an additional boost from the new public infrastructure program. Real estate services anticipate improved activity in residential property markets, but not commercial. Speculative buying will not be a problem in 1994.

OBSERVATIONS

During the course of consultations, a number of themes were repeatedly cited. These are summarized below:

- **Business likes the current monetary environment - interest and exchange rates - but would like to see improvements to fiscal policy - tax levels and public deficits reduced. The private sector wants to see expenditure cut-backs and no new taxes in the February budget.**
- **The issue of business access to capital remains a particular 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 ratios (the hospitality and consumer industries). Recent Bank of Canada figures appear to substantiate this belief. Third quarter data for 1993 suggests some tightness in business credit as bank loans to business in Ontario are down 8.9% in current dollar terms year-over-year.**
- **There appears to be a much more positive attitude towards NAFTA across most sectors of the economy. This seems to be related to a growing self-confidence that, after the recent rationalization and belt-tightening, Ontario companies can compete.**
- **In the context of increasing global competitiveness and rapid technological change, businesses, particularly smaller ones, appear increasingly ready to accept government as a partner. Areas for cooperation most frequently cited were: market information; export promotion and guidance; firm diagnosis and counselling; advocacy role with the financial community; and technology promotion and diffusion.**



NOVA SCOTIA REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

Nova Scotia is slowly recovering from the recession but growth is projected at only 2% for 1994. Export growth has slowed as a result of supply shortages and soft markets for the province's major export products.

Expectations of cutbacks in the public sector and the military have created uncertainty and restructuring continues to affect several sectors.

However, there are also several positive signals for the future: new high technology investments, growth in exports of fabricated materials, a rebound in tourism, growth in knowledge industries and an emerging spirit of self-reliance.



INDICATORS

Vacancies for commercial office space in Metro Halifax peaked in June 1993 and since then there has been positive absorption. Whereas in the first part of the year the commercial office market contracted, since then the loss was reversed and the market grew.

A 1994 employment outlook survey by Manpower Temporary Services projects less constraint in the Metro Halifax job market; for January, February and March, 19% of those surveyed expect to add workers.

However, there are significant differences between Metro Halifax - where, despite uncertainty, there is a strong base of public sector and business and financial services - and the rest of the province. In December, unemployment was 10.9% in Halifax, 15.1% for the province and 24.2% in Cape Breton.

The trend towards self-employment continues. 21% of Nova Scotians recently surveyed

report that someone in their household currently performs income producing or job-related work in their home.

New registered businesses in the province increased by 14% between April and December 31, 1993, while new incorporations increased by 11% over the same

period in 1992. Meanwhile, business bankruptcies continued to decrease during 1993 (by 36% from January to November 1993).

Indications are that retail sales during the Christmas season were up slightly in Nova Scotia; however, retailers are concerned about whether they will justify the season's extra expenses, including an experimental period of Sunday shopping.

Local travel agents report that 1993 was slightly better than 1992 for travel out of the province; although business travel has remained flat, there has been some increase in vacation travel. Companies report that

unusually cold January weather and storms, together with low interest rates, have contributed to a very busy 1994, but that it is too soon to know whether this will translate into increased business.

MOOD

Business people are feeling burdened with increasing taxes (including unemployment insurance, workers compensation, etc.) from all levels of government. Satisfaction with the Nova Scotia government has dropped significantly from its post-election high, as a result of new taxes (reversing a campaign promise) aimed at addressing the province's deficit. Less than a third of Nova Scotians are now very or somewhat satisfied with the government's performance.

In sharp contrast to the other Atlantic provinces, Nova Scotia consumers have lost confidence in the provincial economy; consumer confidence in Metro Halifax, measured in November 1993, declined significantly since July.

Yet, the business mood appears to have improved since November. An industry representative suggests that the business community is hopeful; they are hearing the right messages from the new federal government, but waiting for the right signals from the Budget. The small business community is concerned about possible erosion of capital gains exemptions and expecting to see serious restraint and no new taxes.

KEY SECTORS

Manufacturing

Restructuring continues in the manufacturing sector. During the fall, Dynatek Automation Systems Inc. (which develops, manufactures and distributes mass storage, memory and computer products) and Ballastronix (which produces ballasts for the lighting industry),

opened new plants in Bedford and Amherst.

In November 1993, the province announced a deal to sell the financially troubled Sydney Steel Corporation to China Minmetals.

For the aerospace/defence sector the outlook is continued intense competition with local firms experiencing difficulties. Cancellation of military programs (EH-101, US-ADATS) has adversely affected some local firms (although there is potential for refit work) and there is concern about expected further reductions in military expenditures.

High Technology

Ocean sector firms are continuing to develop proposals for networking and overall sector development.

Increased competition in bio-technology has strengthened local firms' commitment to developing niche products for export markets. The Canadian Red Cross and German-based Miles Laboratories have announced plans for a \$150 million blood plasma processing plant in Halifax. This plant would create 400 jobs and more than \$1 million in economic spin-offs. Another 200 jobs could be created by Sepracor Inc., a U.S. fine chemical manufacturer, that is negotiating with PharmaGlobe Manufacturing Ltd. to take over their Windsor facility.

Services

The software sector continues to experience steady growth, despite restructuring that has seen the closure of one Halifax firm and a significant "down-sizing" of another. Firms are investing in training, adding some staff and aggressively seeking partnerships for international business. A group of 10 Nova Scotia firms will go to CEBIT 94, the world's largest software show, and there is an emerging interest in multi-media development. NovaKnowledge, a grass-roots organization committed to using information technology as

an enabler for economic development, has attracted over 250 members and is developing activities in the Annapolis Valley and Cape Breton.

Firms selling professional services are doing well, and some have grown throughout the recession as they have benefitted from outsourcing of work from government and corporations. In the consulting engineering sector, firms are increasingly forming alliances to get international work.

Environmental firms face a difficult domestic market, as clients continue to be very price-sensitive and curtail and delay projects and activities. Firms continue to downsize, diversify and rationalize. Firms are more optimistic about offshore markets, although the recession has slowed growth in some markets.

Tourism increased during 1993, reversing a decline evident since 1990. Enquiries increased 27 % over 1992, resulting in a 7% increase in motor vehicle traffic and a 4% increase in room sales. Much of this gain has been attributed to increased travel by Atlantic Canadians, who had previously deferred travel, and a declining exchange rate on U.S. dollars, influencing many people to consider Canadian vacations.

The American Bus Association has chosen the Lunenburg Fisheries Exhibition as the number one Canadian event for 1994, and Nova Scotia's 1994 promotional theme is "The Village Fair".

Tourism operators are optimistic about 1994, based on the province's many festivals and events, plus new attractions such as a luxurious Sea Spa resort, now under construction at Blandford, and the Fundy Geological Museum, which features dinosaur bones from the Tertiary-Jurassic period.

Resource Industries

The groundfish industry remains virtually shut

down, but there is growth and renewed interest in the development of a viable aquaculture industry. Nova Scotia is focusing on farming Atlantic salmon and shellfish (mussels, oysters and scallops) and companies are investing in research and development.

Groundfish processing plants are increasing investment in employee training, particularly in the areas of quality control (ISO-9000 certification) and value-added processing techniques. Processors are sourcing raw materials from Russia and SE Asia.

Although there has been significant rationalization within the industry, the players that remain are leaner and more internationally competitive.

Forest production has increased and a decline in lumber sales to Europe has been more than offset by increased sales to American and Pacific Rim markets. While the value of wood product shipments has increased 38%, the value of pulp and paper shipments dropped 4% over the first 10 months of 1993, as a result of a surplus of newsprint.

Bowater Inc. has announced that jobs will be cut at its Brooklyn plant, as part of a corporate cost-cutting exercise. The future of the Stora pulp and paper mill at the Strait of Canso remains uncertain, although the province of Nova Scotia has offered the company more than \$15 million. 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 for this report, a number of public policy issues emerged; these are:

- an increasing tax burden (including unemployment insurance, Canada Pension Plan, workers compensation as well as

- more conventional taxes) and a hope that the federal budget will not increase taxes further;
- . the need for the next federal budget to include serious cost-cutting measures;
- . continuing concern by companies that government agencies are providing services that could be provided by the private sector, and that, in some cases, they are competing unfairly with the private sector;
- . concerns from individuals in high technology fields that the federal government's priority appears to be traditional infrastructure;
- . that the Atlantic region is disadvantaged compared to Central Canada in terms of telecommunications rates (since the rate structure is based on miles);
- . Nova Scotia's new business services tax (introduced in the September 30, 1993 provincial budget) will retard growth of professional service firms in the province;
- . the need for standards and certification with the environmental services industry;
- . concern by manufacturing companies about proposed provincial environmental legislation;
- . unfunded liability under workers compensation; and
- . Sunday shopping (tourism operators are in favour while retailers are not).



NEWFOUNDLAND REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

The Newfoundland economy is highly dependent on the extraction and processing of primary resources in the mining, forestry and fishing sectors. These sectors account for 12% of total provincial employment, compared to about 8% for Canada. The short- to medium-term outlook is influenced by a mixture of resource availability problems in the fishery and forestry sectors; new growth opportunities in emerging, non-resource based manufacturing and high technology sectors; and, an increase in investment activity generated by the Hibernia development project.

Factors influencing the economic outlook in the near and medium-term are: (1) the moratorium on the Northern Cod fishery and the fishery closure in other areas in response to declining stocks; (2) the probability of further offshore oil development following completion of Hibernia; and, (3) overall weaknesses in the financial stability of the economy.

The Northern Cod Adjustment and Recovery Program and compensation packages to other closed fisheries are helping to maintain income levels and standards of living in many areas of Newfoundland. Investment expenditures in the Hibernia development project is the major source of growth in the economy.

Labour market conditions remain weak. The

unemployed rate rose from 18.7% in December of 1992 to 19.8% in December of 1993. Also there was a decline in the labour force and employment. 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.

INDICATORS



Housing starts in November of 1993 were up 11.1% over 1992. In the St. John's Metro Area starts were up 20.4%.

Retail sales in the first ten months of 1993 fell by 1.1%. When adjusted for CPI increases the decline was 2.6%. This reflects a

low level of consumer confidence resulting from the fishery crises of the past two years.

New value automobile sales in the first eleven months of 1993 rose by 6.2% and the volume of car sales increased by 1.7%.

Electricity generation in the fourth quarter of 1993 fell slightly to 1,744,149 MWH compared to 1,788,784 MWH in the same period in 1992.

Long distance calls increased by 8% in 1993 are are forecast to increase by another 5% in 1994.

KEY SECTORS

Manufacturing

Shipments in resource based processing and manufacturing declined in 1993. The value of manufacturing shipments declined by 6.3% in the first ten months of 1993 mostly as a result of declines in fish processing.

Growth took place in non-resource based manufacturing, 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. The Newfoundland Manufacturers' Association estimates that growth in non-resource based manufacturing in 1993 was 9% and capital investment increased by 23%. They estimate that non-resource based manufacturing shipments will increase by 5% in 1994.

Services

The performance of the service sector has been mixed. While there have been some positive aspects, such as increase in purchase of consumer durables such as automobiles and furniture, there has been significant downsizing in companies that service and supply the fishery.

Revenues from tourism/travel increased by 7% in 1993. Resident tourism travel increased by 5% while non-resident activity increased by 10%. The biggest increase was in the airline charter tourist travel.

Resource Processing

Fishing: The northern cod moratorium will remain the main issue in the fisheries sector for the next five years or more. Scientific information suggests that this stock is not recovering at the expected rate. This means that the moratorium will remain in place beyond May 1994. In addition quota cuts and closures are in place for the south coast and

Gulf stocks. These have effected a total of about 35,000 workers in the industry as well as others in industries which supply goods and services.

Exports of fish products were \$325 million in 1993. The Fisheries Association of Newfoundland and Labrador expects that in 1994 exports will fall by another \$100 million to about \$225 million as a result of additional quota cuts and stock closures. They also expect that in the long term the level of the resources will return to only about 2/3 of the size in the 1980s.

Newsprint: Conditions in the newsprint industry showed some improvement in 1993. Prices firmed up and mills improved efficiency and all mills are now operating at near full capacity utilization. Newsprint exports grew by 2% in 1993. However, all three mills in the province are uncompetitive internationally and all lost money in 1993.

Minerals: The total value of mineral shipments in 1993 was \$727 million, an increase of 3.2% over 1992 in spite of a slight decline in the value of iron ore output. The provincial Department of Mines and Energy estimates the 1994 value will increase by 3.7% to \$756 million due to increases in gold production and prices, a slight increase in iron ore production at IOCC and an increase in copper production as a by-product of gold production at Hope Brook. It is also expected that a new gold mine will start operations this year at Pine Cove.

Offshore oil: The Hibernia development project was a key factor in the Newfoundland economy in 1993. Total employment on the project was 5,272 at the end of 1993, of which 3,401 were employed in Newfoundland. However, at present this project is the only source of growth in the economy. When completed in 1997, investment spending and GDP growth will fall off drastically if no other offshore oil projects come on stream. This, combined with the problems in the fishing

industry, would result in negative growth in the economy following 1997.

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.

In November, Newfoundland Telephone completed its three-year \$43 million project to construct a fibre optic network across the Province.

DataDisk Ltd. has established an information technology business to provide document imaging service bureau and computer database facility in Trepassey. The main service will be conversion of paper documents to electronic format for storage on optical disks, CD-Rom, etc. Thirty former fishery workers displaced by the northern cod moratorium are being retrained as document imaging technicians.

Guigne International Ltd. is developing an "Intelligent Feedback Controller" for its Space-Drums technology which was reported on in the Fall 1993 issue of this report. To support Drums, they are developing an intelligent feedback sensing system to perform precise positioning and shaping of glass in space. The system would involve leading edge high speed intelligent controllers and exact processing algorithms to handle multi-beam acoustics.

Instrumar Ltd. is developing a dynamic simulation of the Space Station Remote Manipulation System to aid in the evaluation and characterization of it as a robotic system and to support the development of advanced teleoperational control systems.

Canpolar East is applying its sensing technology developed for the fish processing

industry to wider applications. It is using this technology to develop an "Integrity Monitoring System" that will have applications in the aerospace industry.

MOOD

The St. John's Board of Trade Business Outlook Survey for 1994 shows cautious optimism. Sixty-six percent of the business community expect conditions to remain the same in 1994 while 11% expect conditions to improve. The General Manager of the Board recently said "There is a sense that although the worst may be behind us now, there still is a cautious approach to business".

There is a general mood of pessimism as a result of the prospects for the fishing industry in 1994 and beyond. It is now certain that groundfish stocks will not be rebuilding to levels required to allow renewed fishing in the short to medium-term. The uncertainty as to whether the compensation package will be continued after March 1994 is adding to this pessimism. This lack of consumer confidence is reflected in depressed retail sales.

OBSERVATIONS

The Newfoundland Government's fiscal situation is very bad. Net debt and debt-service costs per capita are higher than the ten-province average, seriously constraining the province's ability to fund program spending. The fiscal capacity of Newfoundland remains around 60% of the all-province average. The provincial government has indicated that there will have to be additional restraint measures in 1994-95 to reduce the projected current account deficit. Negotiations have begun with the main public sector union on additional cuts to the total compensation package.

The provincial government has undertaken several initiatives that have potential for change in the economy and the way

government does business. The first is an initiative to rationalize the delivery of development programs in the province. At present, there are 167 offices of various development agencies in the province. These include rural development associations, offices of provincial government departments, municipal development bodies, etc. The government proposes to consolidate these operations into 17 zonal bodies. This initiative is part of the Newfoundland Government's total strategy to consolidate and rationalize the delivery of programs and services. This includes proposals to integrate provincial and federal programs and services.

The second is a simplification of the regulatory process. This will minimize the regulatory burden on business. Regulation will have to be justified through regulatory impact analysis. Existing regulations will also have to be justified or they will lapse.

The third is a proposed income supplementation program. This is a proposal for an Income Supplementation Program and related income security program reforms to provide income stabilization and incentives to encourage shift from dependence on social programs to work.

The Newfoundland Government has started a program of privatization of crown corporations. Negotiations are under way for the privatization of Newfoundland and Labrador Hydro and Newfoundland and Labrador Computer Services.



NEW BRUNSWICK REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

Compared to some provinces, New Brunswick's economic performance has been reasonably good and prospects appear bright for a third consecutive year of modest but positive economic growth.

The exporting industries led the way with a rise in revenue of 13.6% over 1992. Retail trade experienced an increase of close to 5% while manufacturing shipments (January - October) realized a 14.3% increase. This growth is attributable primarily to a lower Canadian dollar, but must also take into account the considerable restructuring and downsizing efforts of many industries. Both tourism and lumber industries have enjoyed a strong resurgence in activity. Consumer confidence remains shaky. There is still no evidence of increased purchases of major items. Business investment activity, while sluggish, appears to be confined to the Moncton and southeast portion.

Tourism, housing and metal working are anticipating a good year while pulp and paper and mining are hopeful that their fortunes will improve in late 1994. The construction industry is optimistic given the recently announced infrastructure program, the Atlantic Expressway and the Fixed Link projects. The fishery is anticipating a good year for lobster and crab but a tough one for farmed salmon.

INDICATORS

Housing: In 1993, there were close to 3700 housing starts, up from 3310 in 1992. While the number of housing and multiple dwelling starts is expected to decline in 1994, the number of single family starts is anticipated to increase for the fourth consecutive year.

Employment: On a year-over-year basis, employment declined by 3000 due mainly to a decrease of 5000 full-time and increase of 2000 part time jobs. Employment declined by 4000 in the goods-producing industries and rose by 2000 in the services-producing industries.



Marine industries: The Marine Atlantic ferry

service to P.E.I. reports a year-over-year increase of 4% in passenger traffic and 7% in commercial related traffic. The Fundy service from Saint John to Digby also reported a year-over-year increase of 13% in passenger traffic and 4% in commercial traffic. The Saint John Port Corporation reports an overall increase of close to 30% in terms of metric tonnage handled - almost solely attributable to a rise in the shipped volume of Irving's petroleum products.

New Car Sales: In 1993, an increase in new car sales of 3.8% was witnessed in the Atlantic Region, with a 1.3% increase being registered for New Brunswick. The recently announced Fixed Link project will increase demand for

light and heavy duty trucks. The regional representative for Chrysler Canada predicts a marginal increase of 2% in new car sales activity within Atlantic Canada for the first quarter of 1994 as a result of considerable pent-up demand and the unusually cold weather.

MOOD

Consumer confidence appears to be slowly improving, despite continuing layoff and shutdown announcements. The tourism industry claims that generally, tourists are still price-conscious and are still seeking best value products. Retailers confirm that even though on a year-over-year basis the sales are up, the purchases are confined to smaller, perceived bargain, items.

A recent conversation with a senior provincial official disclosed that the government anticipated extremely adverse reactions to the many, seemingly harsh, cost-cutting measures it took during 1993, particularly in social programming. When such reactions did not occur, the government realized that it had, in fact, greatly underestimated the will of New Brunswickers to effect such measures. The prevailing mood leading up to a federal budget seems to one of expecting government to be tough yet fair.

KEY SECTORS

Manufacturing

The metalworking sector with close linkages to (the performance of) other sectors, has experienced a tough year. Five out of roughly 100 firms in this sector were lost in 1993. Those that remain have already implemented cost-cutting, layoff and worksharing measures. The Canadian Manufacturing Association's N.B. General Manager is much more optimistic about the prospects for 1994.

The small group of 12 companies comprising New Brunswick's plastics/rubber sector, has virtually all reported increases in sales during 1993, ranging from 17% to over 100%. A recurring issue from many of these small firms is obtaining financing for expansion/new technologies due to the particularly stringent requirements of the banks. The firms claim that financing decisions are being made from the head offices of banks which leads not only to serious time delays but, due to the lack of knowledge of technically illiterate bank managers, often results in a negative response.

Services

Tourism has experienced its first real growth in three years with total revenues reaching \$615 million, up from \$575 million in 1992. However, the 6% increase in revenue was not shared by all segments of the industry. Low to mid-priced establishments offering products catering to specialized markets (e.g. romance packages, escape weekends, golf packages) reported the largest increases in 1993. It was also a good year for the meeting and convention markets. Most of the increased tourism activity was generated from increased domestic traffic, from Quebec and the Atlantic region in particular. Another positive year is anticipated by the industry in 1994.

Construction industries

Construction industries whose actual employment of 12,000 in December 1993 was 2,000 less than in December of 1992, were elated with the news of the Fixed Link and the federal infrastructure program. There are few major, non-residential, capital projects being considered over the near term.

Resource Industries

In the Forestry, lumber production increased by close to 15% over 1992, as volumes approached 1 billion bd.ft. Producers responded in early-mid 1993 to an unforeseen shortfall on the West Coast supply side as well

as strong demand from the United States housing market towards the end of the year. Producers are anticipating another strong year as demand from the U.S. is expected to be strong. The J.D. Irving Group of Companies has just announced that they will build a \$15 million wood value-added plant in Chipman, New Brunswick.

The pulp and paper industry expects demand for its paper products to double over the next 20 years. Producers are turning to recycled fiber in answer to environmental pressures - opportunity for some in gaining market share when products advertise "eco" label. Coated paper prices are up, thus signalling good market prospects for Repap's fine-coated paper operation. The newsprint market demands remain flat. In response to a long standing requirement, mills are being asked to make major investments to satisfy environmental regulations. The industry has requested extensions to the pulp and paper effluent regulations.

As a result of a recent visit by Industry Canada officers to the only U.S. federal forest products laboratory, in Wisconsin, a feasibility study is currently underway for a \$60-100 million de-inking facility in New Brunswick. Opportunity studies on the by-products from Repap's revolutionary ALCELL process are being undertaken by the Swiss Lignan Institute and multinational BASF.

The mining industry has experienced a poor year on the metals side where copper, lead and zinc prices plummeted to their lowest level in a decade forcing voluntary closures to limit inventories. Brunswick Mining and Smelting lost \$20 million in the last quarter. Its 1230 job mining division just gave early retirement to 58 employees and plans layoffs of 105 in 1994. Both of New Brunswick's potash companies (Potash Co. of Saskatchewan and Potacan Mining Co.) are experiencing low prices and an oversupplied world market forcing some voluntary closures and temporary

layoffs. The peat industry increased its sales to more than \$40 million in 1993 (due in part to poor weather conditions in Quebec) and predict a growth rate into the future of 8% per year.

The short to medium term prospects for those 800 direct jobs affected by the closure of the Gulf cod fishery in New Brunswick is not good. This fishery was almost entirely confined to the already economically depressed Northeast portion of the province. The lobster fishery is expected to reveal similar volume landing figures as in 1992; however, with much lower inventories at the end of 1993 than in the previous year as well as a poor New England fall fishery hampered by bad weather, prospects for stable or stronger prices appear good even if demand remains sluggish in the first half of 1994. The crab fishery caught its quota of 14,500 tonnes in 1993 and received their best prices since 1989. Prospects for 1994 remain good with a slight increase in quota expected as well as stable market prices. Super chill (water too cold for salmon to survive), hitra disease and the Chileans selling in the U.S. market at very low prices all contributed to possibly the worst year since the commencement of the New Brunswick salmon aquaculture industry. Higher 1994 production from the Chileans and Norwegians does not bode well for prices to improve this year. On the positive side, a few of the larger companies are examining value-added product opportunities.

High technology

According to the President of the New Brunswick Geomatics Association, it seems as though the recession is just now striking this industry as many firms are downsizing and proceeding with layoffs. Small players will not likely survive and some consolidation of the industry will occur. With real strengths at both the academic level and at the level of applied geographic-based data, hope for the industry lies in the pursuit of opportunities in international markets. It is

realized that to compete internationally efforts to strike various forms of business networks and strategic alliances will be required in order to create the necessary critical mass.

OBSERVATIONS

With the recent announcement of a new Minister of State responsible for the Electronic Information Highway, the Premier indicated his commitment to developing opportunities in the high-speed communications field. NBTel was the first telephone company in Canada to complete a province-wide digital network thus setting in place some of the key infrastructure to enable advanced communications systems development.

A recent engineering job competition at a secondary wood manufacturing plant located within a small community in Northern New Brunswick drew more than 50 highly qualified applicants, indicative of a job market exhibiting a strong supply side and weak demand.

Employees at a major manufacturer of wooden doors and windows just settled with their British owners for a 10% pay cut with no guarantee for long term employment. The Moncton firm 200+ employees is one of four North American operations owned by the British company, all of which are under study for restructuring. Ironically, a Moncton-based vinyl window and door manufacturer is undergoing a \$1 million expansion.

A proposal presently being considered by both levels of government, envisages a New Brunswick-built frigate visiting various east Asian ports. The frigate would be used as a mobile exhibit displaying the best examples of Canadian high-technology companies.



MANITOBA REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

On a year-to-date basis, Manitoba's GDP growth rate to the end of the third quarter increased by 1.5%, due primarily to increases in corporate profits (8.8%), capital consumption allowance (3.1%), investment income (2.5%) and unincorporated business income (1.6%).

There is widespread consensus that Manitoba's real growth rate in 1993 should fall in the 1.0%-1.5% range, lagging behind the anticipated Canada average of 2.6%.

Several provincial sectors put in promising performances in the latter part of 1993, particularly the manufacturing, agri-food and services sectors. Based on the relative strength and positioning of these sectors, Manitoba's GDP in 1994 is projected to grow between 2.8% (Conference Board) and 3.0% (Bank of Nova Scotia, TD Bank and Informetrica).

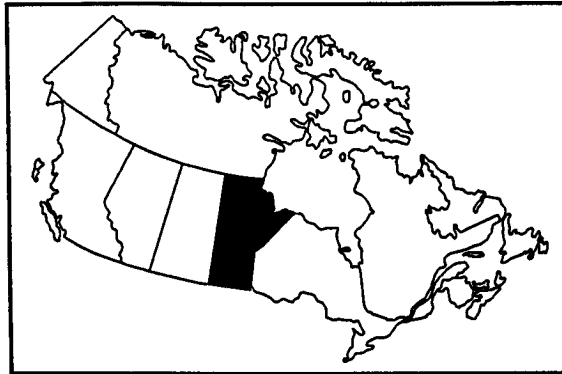
The modest provincial recovery to date has been export-led. A low Canadian dollar, coupled with an improved U.S. economy, has triggered increased exports in the manufacturing and agri-food sectors.

By comparison, domestic sales for most sectors remain relatively flat. This has had a dampening effect on the provincial economy as

Manitoba tends to depend more on selling to other provinces than exporting abroad.

Historically, total exports have accounted for about 30% of provincial GDP, while foreign exports as a percentage of GDP have only accounted for 13%.

INDICATORS



The statistical tracking of the province's economy shows year-over-year (Dec 92/93) improvement. Statistics Canada reports that Manitoba's seasonally adjusted participation rate (67.2%) increased marginally from a year earlier (66.8%) and is the second highest following Alberta. The

Canada average is 65.1%.

Between December 92/93, Manitoba's labour force expanded by 0.9% and employment grew by 2.1%. In turn, Manitoba's unemployment rate in December declined to 8.8%, down from 9.1% in November 1993 and 9.8% in December 1992.

Of note, however, part-time employment increased by 6.2% compared to 1.8% for full-time employment between December 92/93.

It is estimated that at least 80,000 individuals in Manitoba, representing about 5% of the labour force, are now self-employed and/or operate home-based businesses.

Business bankruptcies in the province have declined by 15.2% from a year earlier. The wholesale and retail trade sector accounted for the largest share of bankruptcies (31.0%), followed by the food, beverage and accommodation sector (17.4%).

Capital investment in Manitoba in 1993 is expected to total about \$3,344M, continuing a four-year decline since 1990 (\$3,795M). This also represents the lowest rate of investment since 1985 (\$3,200M).

Much of the decline in the last two years can be attributed to reduced capital investment by both the utility and communication sector (-14.5%) and the transportation sector (-16.6%). On a positive note, investment by the manufacturing sector has increased by 17.2%.

Local realtors have been prophesying a turn around in home sales for some time. Sales have yet to materialize in spite of favourable and dropping house prices and low interest rates. New housing starts remain historically low (only 70% of previous production levels in the 1980s). Year-over-year statistics show housing starts are up by only 1.2%.

Provincial retail sales have basically remained flat or declined since the late-1980's. Sales from September 1992 to September 1993 showed a nominal increase of 5.9%, with high volume/low cost retailers and some specialty retailers being the primary winners.

Nevertheless, radio stations generally reported record fourth quarter advertising sales.

New car sales are down by 6.7% for the period July 1992 - July 1993 and have declined steadily (-34.3%) since 1986.

Retailers in the province have generally been hurt by demographics (no growth) and the continued decline in purchasing power of Manitobans.

- Since 1984, average weekly earnings have dropped from 93.9% of the Canada average to 88.3% in 1993.
- Manitoba's population growth remains well below the national average. Between 92-93 Manitoba grew by 0.3% versus 1.1% for Canada.
- A recent National Council on Welfare report shows that Manitoba has the highest poverty rate of any province: 21.1% of Manitobans were living at the poverty level in 1991 compared to the national average of 13.1%.

For the second straight year, provincial funding to education has been reduced. Reductions total 4.5% over the two-year period.

A low Canadian dollar contributed to a drop in cross-border shopping: trips by Manitobans dropped by 20.4% (Aug. 1992 - Aug. 1993).

MOOD

From both a consumer and business perspective, the recovery has been frustratingly slow. The actual performance of the economy has not matched even modest forecast growth rates. Both groups continue to receive mixed signals of how the recovery is progressing.

- Winnipeg-based trucking firm, Motorways, ceased operation in December, putting almost 800 employees out of work.
- Winnipeg-based bus manufacturing firm, New Flyer Industries, announced a tentative \$80M deal to supply New Orleans with up to 300 buses. The deal caps off a "record-breaking year" for New Flyer in terms of buses delivered (400) and dollar-volume of sales (\$125M).

A recent public opinion poll nevertheless shows that Manitobans are feeling somewhat more optimistic about the province's economic prospects. The poll showed 28.5% of Manitobans predicting that the economy will perform better this year and 49.6% predicting no change. This is a marginal improvement from March 1993 results which showed a 23.6% and 49.4% response, respectively.

Conversely, Manitobans are feeling less optimistic about their own personal finances: 25.8% feel their own financial position will worsen over the coming year.

The recently announced federal infrastructure program (\$68.3M to Manitoba) has generated optimism and stimulated considerable debate as to whether monies should be allocated to high tech initiatives (fewer jobs/longer-term benefits), or to traditional infrastructure projects (greater job impact/immediate benefits only).

A collective sigh of relief was heard from the Manitoba government in light of Ottawa's new five-year funding agreement which will increase transfers by \$64M. Manitoba's entitlement will grow to \$1.1B by 1999, up from the \$854 it now receives. Manitoba has a relatively low own-source fiscal capacity (about 33% of revenues come from federal transfers).

The federal budget and the possibility of a spring provincial election have attracted considerable attention. Budget-wise, Manitobans are focused on taxation, federal expenditure/deficit controls, the future of capital gains allowances, RRSPs, and possible medical and social program reforms.

High taxation (all forms) continues to be a key concern. Criticism is levelled at all three levels of government.

"Filmon Fridays" may be extended for all public sector employees from 10 to 15 days, given that legislation is already in place. Total

payroll savings expected would amount to about \$30M annually.

KEY SECTORS

Information Technology Industry:

Companies are developing considerable interest in the electronic highway and CANARIE initiatives, particularly in light of the support both initiatives are receiving from Dr. Gerrard and Premier Filmon. Local IT companies are exploring how to position their products and services as other industries rapidly introduce new technology to address competitiveness and cost containment issues.

The recent passing of NAFTA has IT companies currently leasing software concerned. Having to adhere to U.S. rather than Canadian copyright laws may force many of these firms out of business.

Service Industry:

The main area of interest of service firms continues to be quality and technology issues. More awareness still needs to occur regarding the export potential of these industries. NAFTA has many service companies optimistic about opportunities that may develop in the areas of telecom, consulting, training and engineering.

Manufacturing:

Exports were the key factor in sustaining growth. Export demand had its origins in a strengthened U.S. market. The industry is slowly shedding its regional view of operations for a more global outlook. Heavy capital investment is still directed primarily to technology improvements (e.g. CAD/CAM).

Average hourly earnings in the Manitoba manufacturing sector (\$12.74) are currently the lowest in the nation, being only 82.3% of the Canada average (\$15.47) and 70.9% of the

British Columbia average (\$17.96).

Agriculture:

The effects of near record canola prices are being felt across the province as farmers begin spending once again. The Canadian Farm and Industrial Equipment Institute announced tractor sales were up by 30% due to heavy buying late in 1993. In addition, retailers in the City of Brandon, reported a 20% increase in sales over Christmas. The high canola prices are largely attributable to poor U.S. crop yields resulting from the mid-west flooding. The Conference Board of Canada is predicting that the agriculture sector will grow by 8.9%. A lower Canadian dollar has contributed to increased exports, particularly in the cattle industry.

Tourism:

U.S. arrivals in Manitoba for the first eight months in 1993 increased by 1.2% (compared to the Canada average of 0.2%). In addition, hotel occupancy rates increased to 65.9% from 63.2% a year earlier.

The number of foreign trips (excluding U.S.) to Manitoba in 1993 increased by 25.5% over 1992.

OBSERVATIONS

A New Shark In Retail Waters

"Anybody who tries to live on a discount business just had a big elephant step on their head." Stockbroker Brian Katz commenting on the impact that Wal-Mart's announcement had on the share value of Canadian retail firms.

The Recession's Over, Really!

Norm Leach of the Manitoba Chamber of Commerce: "The recession is over from the statistical numbers....we just have to get business to recognize it."

Call 1-800-Manitoba

In an effort to capture a greater share of the \$295B telecommunications business in North America, Manitoba has been aggressively marketing itself as the ideal telecommunications centre (Canada reputedly only captures \$8.5B of the business). Last year Manitoba landed 710 jobs in the field, luring firms such as Unitel, Canadian Pacific, Integrated Messaging Inc. and Canada Post.

Officials are negotiating to lure an additional 1,000 jobs.



BRITISH COLUMBIA REGIONAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1994

OVERVIEW

Reports show that 1993 was a good year for the British Columbia economy relative to the rest of Canada: manufacturing shipments and retail sales each up +10%, exports up +16%, urban housing starts up 10.3%—total starts hit new record of 42,807. Employment grew 3.2% (49,000 jobs), Canadian rate was 1.2%. Help-wanted index down 11% in the past year.

This year, unemployment 9.8% in January, down fractionally from 10.1% in December.

Guarded optimism about 1994. SMEs see some expansion (mostly medium-sized companies—\$1 to 10M sales) and diversification (product and market) with plans to hire full-time workers; larger companies see further downsizing. Aggressive foreign and local competition, frugal consumers and *taxation* are choking SME growth potential.

Job seekers discouraged. Job growth marginal (1.1% November 1993) and mostly outside Vancouver, among men and in 25-44 working age group. British Columbia participation rate off 1.5 points (Vancouver down 3.1 points), compared to 0.6 nationally; if participation rate same level as year ago, unemployment rate would be about 12% in Vancouver.

INDICATORS

Retail sales increasing but department store sales sliding. Reflects consumer preference for cost cutting stores and specialty shops. The 1993 cruise ship season out of Vancouver had record 234 voyages; 1994 forecast is over 270.

New demand for generalist skills but also technical specialists, sales people and finance people with ability to *raise and manage* capital. More time spent on selection. Team idea building momentum.

Recent survey of 274 British Columbia business people—56%

said government subsidies to businesses are inappropriate.

Companies aggressively pursuing productivity improvement via machinery and equipment—production increases may not result in employment gains. Further shifts away from wage compensation to bonus and other incentive packages.

Toilet paper sales up, indicates tail end of recession (industry sources argue people use more in good times)!

Union certification doubled in 1993; 40% of British Columbia unions negotiate contracts in 1994. SME-union collaboration minimal.



Flat disposable income depressing consumption. Coupon redemption and flyer response rates dramatically up.

Business bankruptcies down significantly, 30.9% between September 1992 and September 1993.

New Chinese language daily newspaper started production in Richmond, anticipating circulation of 20,000. Chinese advertising media market \$1M per month.

Capital expenditure up 6% in 1993 mostly in housing sector and public spending, not productive business investment.

Engineering Services growth mixed, small companies busy (some hiring), larger companies downsizing (six recent consolidations—H.A. Simons Vancouver staff reduced from 2,000 to under 500 staff).

MOOD

Grumbling and pessimism over government imposed costs (excessive paper burden, increase in CPP/UIC, need for government one-stop shopping)—"I can't afford to be in business anymore, see no growth, can't get supplies at reasonable cost."

SMEs frequently refer to inducements to relocate to the U.S. northwest, driven by *tax*, bureaucracy, lack of federal-provincial development framework.

Banks concerned re: financing to hard hit resource sectors; cautious over commercial loans; also virtually no financing for hotel or commercial building construction. Real estate loans require pre-sales of 75%.

Retailers upset with paper-work, policies, regulations and government's "increasing day-to-day interference and intervention".

KEY SECTORS

Resources

Forest Products:

Market conditions generally good: Dec. 6.2% increase in US housing starts pushing lumber prices back to +\$US520 levels; pulp prices rising (two increases since December) now \$US460/tonne. Corporate earnings improving among integrated producers, especially those with greater dependence on lumber production. Cost cutting impacting R&D activities—projects on hold; spending focused on environmental factors rather than production improvements.

Industry cautious about new British Columbia Forest Practices Code; will improve image and some new products (e.g., de-barker) but compliance costly, consistency across province hard to attain—may also boost stumpage rates (estimated \$1B this year vs \$615M in 1992). Planned reduction in annual allowable cuts, 10-15% by 2003 (10,000 jobs)—major adjustment problem.

Dismay over deferring of federal regulations allowing companies to delay compliance with effluent regulations. British Columbia companies already meeting more stringent provincial regulations.

North American markets for red cedar products shrinking because consumers (Vancouver specifically) perceive product as high maintenance (i.e., requires staining). Markets shifting to Saudi Arabia, Taiwan, Japan. Companies accessing European markets via shipping to Poland for assembly and sale in EC countries.

Significant market shift into composites (15-20% annual growth rates), away from wood products. Composite wood products companies aggressively upgrading/investing in facilities. Panel product producers forecast 25% growth 1994; 25-40% in 1995.

Mining:

Continued low demand, low price conditions: Southeast coal prices cut \$US 3.85/tonne; exploration and capital expenditures flat or declining; job losses expected to continue into 1996. Industry believes 1993 represents trough of cycle and 1994 will see modest price improvement among base metals.

Key concerns remain BC's *onerous tax* environment (e.g., water tax), burden of environmental regulations, time for mine development process, land losses to parks and costs of reclamation.

Fisheries:

Profits marginal or non-existent, industry scrambling to reduce costs and increase use of technology to improve production. Companies want training tax credits to promote in-house training.

Manufacturing:

Continued pressure on heavy metal manufacturers to relocate to US due to high labour costs—two more companies this month actively investigating US locations (+400 employees potentially affected), others rumored looking. Environmental permit process for US manufacturing facilities streamlined (two years to one year). British Columbia *capital tax* major irritant to manufacturers.

Hitech/Communications:

Smaller companies (20-30 staff) investing/expanding: buildings, people, inventory; demand for capital increasing.

Industry feels provincial government yet to acknowledge positive economic impact of knowledge-based industries. Real concern over *payroll tax increases* (workers compensation, CPP/UIC)—they eat at profit margins and make companies uncompetitive

internationally.

Biotech sector predicting 38% increase in corporate revenue within five years. Key problems: lack of single cohesive, efficient regulatory system; sluggish capital market in Canada; lack marketing, product development skills; competition between public labs and private sector labs as governments move to cost recovery; and consumer enthusiasm. Industry views British Columbia government decision to list generic drug Enalapril (in direct competition to patented drug Vasotec) as provincial indifference to certain intellectual property rights. Could damage investment.

SERVICES

Tourism:

Christmas ski resort season excellent across British Columbia, outlook for balance of season positive (except Vancouver based); other occupancy rates higher than last year, U.S. and German markets strong (U.S. most growth), Japanese visits stable.

Local hotels dealing with declining profit margins, in spite of high occupancy rates. Industry upset over recent *tax interpretation* allowing companies to write-off expenses for corporate meetings held at "hotels" but not "resorts". Federal and provincial commitment to tourism questioned.

Environmental:

Industry disturbed over provincial government decision to "un-privatize" environmental labs. Domestic base important springboard for exporting (credibility and stable financial position).

Federal strategy for environment industry should be to become the "Singapore of North America"—focus on managing and using existing technologies of proven companies.

OBSERVATIONS

Most important issues remain: *taxation*, government policies, the economy and the deficit. *"Taxes are driving away business—underground and across the border"*.

Effective role for government seen as creating environment for business, leveraging innovation and commercialization; strategic/structural intervention to lower business failure rates; provide appropriately trained people. *"Government should pay attention to the economy—especially the deficit—and we will take care of ourselves and our businesses"*.

Recent changes to British Columbia labour code, fair wages legislation and increase in UI premiums intensify business and investor perception that costs of doing business greater in British Columbia than in northwest U.S. Comparative data vital (input costs, margins and *taxation*).

Tightening of commercial credit—hotel, forestry, retail, construction and other small businesses claim bank financing non-existent or increasingly difficult to come by during fourth quarter of 1993.

UI reform must address retraining and skill development problems; put training funds directly in hands of employers. Resentment building against social free-loading.



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Alberta

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ALBERTA
REGIONAL INDUSTRIAL INTELLIGENCE REPORT
WINTER 1994

OVERVIEW

Overall, the industrial situation and outlook in Alberta is positive. Successful conclusion of the GATT and passage of NAFTA are seen as positive and stimulating influences. In general, Alberta industry welcomes the new market access and trade opportunities; particularly in the energy industries as they look at opportunities in Mexico and further afield. It is noted, however, that not all sectors are pleased; in particular that portion of the agricultural sector facing modifications to supply management programs. Alberta's strong support for elimination of interprovincial trade barriers is also seen as positive in terms of improved market access.



The economic outlook for the province is still good. The Conference Board's latest forecast calls for a slowing of growth in real domestic product from the 5% achieved in 1993 to about 3% in 1994. Growth in the oil patch is expected to weaken as the economy matures. Also, poor job creation and restrictive fiscal policy will dampen domestic demand in 1994.

INDICATORS

In 1993, Alberta's real GDP was \$64 billion and the GDP growth forecast for 1994 is

3.3%, according to the Conference Board's February estimate. The unemployment rate for the province was 10.0% in January 1994, or 9.3% when seasonally adjusted. Exports, manufacturing shipments and retail trade all performed well in Alberta in 1993, with year-to-date increases of 9.6%, 9.1% and 4.2% respectively.

The number of rigs drilling is a measure of activity in the oil and gas sector and a good indicator of the Alberta economy. Overall drilling was up over 80% on a year-over-year basis, through the first ten months of 1993. Much of this was gas-directed drilling. At

mid-December there were 269 rigs actively drilling in Alberta out of a total available of 320. This drilling boom is expected to slacken somewhat in 1994.

Housing starts (Jan.-Nov.) were down 1% from 1992. In November 1993, housing starts in the major urban centres of Alberta were only 1,143 down 22% from year-ago levels. Building permits show a 14% drop from 1992 levels. Overall, public and private investment is estimated at \$21 billion for 1993.

Tourism statistics continue to show improvement in Alberta. Receipts from 1993 were estimated at \$3 billion. Overnight stays

were also up. This is borne out by the results of a late summer survey and also by ski resort statistics.

MOOD

The mood in Alberta is mixed. The economy shows relatively strong growth but weak job creation. Business is cautiously optimistic; optimistic at the prospect of new markets and improved access, cautious with respect to major new investments. Consumers are hesitant, needing to replace vehicles and other durables but lacking confidence because of job insecurity. Anticipated reaction to the Alberta Budget, due February 24, reflects this dichotomy. The Klein government's plan to stay the course for a balanced budget by 1996-97 has people worried about job losses and cutbacks in services and social programs. Business, on the other hand, is upbeat judging from reaction to the government's plan to create a healthy business climate and other measures announced in the recent Speech from the Throne.

The federal budget, scheduled for February 22, adds a further dimension. Any changes to federal transfers will impact upon provincial revenues. Consumers await possible impacts on their disposable incomes. Business, especially SMEs, are seeking relief from taxation and regulatory burdens, real or perceived. Albertans generally appear to have confidence in the new federal government and its leadership; however, they also appear intrigued by the new dimension of Reform Party representation in Ottawa.

KEY SECTORS

Resources Industries:

Energy, agriculture and forestry are three resource industries crucial to Alberta. The oil

and gas sector is currently enjoying a boom, though growth is expected to relax a bit in 1994. Industry restructuring has resulted in lower costs while improved markets and new pipeline capacity have strengthened gas drilling. On the oil side, higher production of synthetic crude from the tar sands has partly compensated for the lower production of conventional oils. Oilweek's Outlook 1994 presented among other things predictions for natural gas, its prices and markets. This outlook is strongly positive with the substantial price recovery of 1993 here to stay. In an environment of balanced gas markets and growing demand, Canadian exports to the U.S. are projected to increase by 25 percent by 1995.

Alberta's agriculture industry shows a healthy balance between livestock and cash crops. The red meat industry is currently doing very well, though rationalization is still continuing at the processing end. Initial fears that the poor quality of grain might spoil last year's bumper crop appear to have been exaggerated. Hence farmers now appear to be in better financial shape for the coming year. Some anxiety exists regarding supply-managed commodities and wheat growers, especially durum producers, are keen to have trade disputes settled with the U.S. However, Canadian grain farmers are pleased to see the EC-U.S. stand-off finally resolved and are hopeful of an improved outlook for their grain prices.

The performance and outlook for forest industries in Alberta continues to be positive. Higher prices are expected to continue for lumber and panelboard products. Alberta is well positioned to benefit from new investment opportunities. This is borne out by a recent increase in enquiries relating to investments under consideration. Substantial growth in Alberta is expected in sawmilling, panelboard, value-added and specialty lumber products including aspen and other hardwoods.

The outlook for pulp and paper is somewhat weak as this sector continues to suffer worldwide from over-capacity and low prices. However, Alberta mills are generally efficient and have good environmental standards. They are likely to profit from any pickup in wood pulp prices. 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:

Manufacturing shipments for January - November, 1993 were \$19.5 billion; up 9.1% over 1992. Industries posting major gains over 1992 were wood products 30%, electronics 17%, transportation equipment 11%, primary metals 18% and food products 11%. Employment in manufacturing was 90,100 in December 1993.

The apparel sector continues to show improvement. Work wear and children's wear components are very strong, sportswear is somewhat mixed but fashion wear has finally begun to experience an upturn. Strength in industrial clothing demand is believed to reflect economic recovery in industrial activity. Sales are up 30% or more from last year, with some success in export as well as domestic markets. Capital investment and employment are both showing strong increases. Lack of skilled staff and inadequate training is becoming a concern for future growth.

Plastics manufacturing is a sector that also appears to be more profitable in 1993. Much restructuring was accomplished, partly through acquisitions, and significant technology

enhancements were also undertaken in this sector. Companies are now reporting higher sales and are more optimistic about the future prospects for export opportunities. Training is also an issue in this sector due to a shortage of trained personnel, such as CAD/CAM operators.

Advanced Technology:

The software sector in Alberta is optimistic about the future though companies are cautious regarding investments or any immediate benefits from NAFTA. Common complaints heard relate to government procurement procedures and difficulty in raising cash. In the electronics telecommunications sector cash flow problems have also arisen. Rationalization continues within the sector but generally the mood is one of cautious optimism.

The medical devices sector continues to face some difficulties as an emerging sector. However, the Association reports a more positive outlook and interest in the North American market including Mexico. Concern is expressed about the deficit, weak oil prices and their potential impact on the local economy. With quality niche products and good marketing, modest growth is the outlook for this sector.

The environmental industries sector is becoming more capital intensive and technologically sophisticated. Job creation is slow though the sector is seeing positive growth. Some maturing is evident in environmental industries, particularly in the recycling component. Concerns in the sector include the lack of harmonized provincial standards and apparent dearth of consultation with the industry on the development of standards.

Cautious optimism is also the hallmark of a large globally focussed biotechnology company

in Alberta. Future growth in operations and sales is expected to come largely through productivity improvements and the company is investing heavily in employee training. The mood from this company's perspective is upbeat and successful conclusion of the GATT is seen as positive. Issues not addressed by GATT and how the government deals with the level of taxation and the deficit in the upcoming federal budget are of concern to the company.

Services:

Tourism sector in Alberta is upbeat. After an excellent summer season, especially in Banff and Jasper, the winter ski season is also off to a fine start. In its annual post-summer survey of 39 tourism businesses, Alberta Economic Development and Tourism reports that 1993 was the best summer season in years. Where results were quantifiable, business appears to be up 10 percent over 1992 with Banff area operators especially exuberant. Results were attributed to Alberta being very reasonably priced, attracting larger numbers of U.S. and Japanese visitors as well as Canadians.

The ski season, at least through Christmas, is one of the best on record. Winter bookings are excellent. All the major resorts got an early start with good snow conditions. Jasper's Marmot handled 36,700 skiers in December breaking its 1991 record. Lake Louise recorded a daily average of 5,000 skiers during Christmas and Sunshine Village also hit a one-day peak of 5,000. Smaller resorts also report strong business in the current ski season.

Tourism investments are planned or underway, mainly in southern Alberta. Environmental issues are of concern with respect to proposed investments in Canmore and in the mountain parks.

OBSERVATIONS

In Alberta, people anxiously await both the upcoming federal and provincial budgets. There is concern about provincial cutbacks and potential job losses. There is also apprehension about how the new federal government might impact on Alberta, by way of a carbon tax for example. Such preoccupation may, in fact, be masking an upturn in consumer and business confidence that would otherwise exist.