



SASKATCHEWAN PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

Saskatchewan economy is expected to have posted 3.5% growth in real gross domestic product in 1994. Forecasts also indicate continued strength in 1995 with expected growth of 2.75%-3%. Surveys indicate people are feeling more optimistic about the provincial economy. Saskatchewan enjoyed bumper crops this year. Oil and gas land sales, drilling and production are at record levels.

Exports, construction activity and value of manufactured shipments and retail sales are all up.

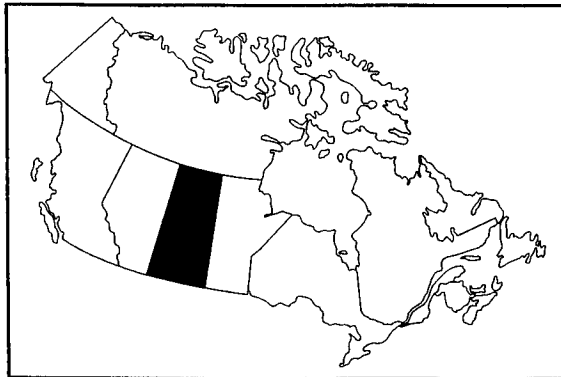
This positive activity, however, is not being reflected in aggregate employment growth. While employment grew in such sectors as manufacturing, communications and utilities, wholesale and retail trade and services, a number of jobs have been lost in the traditional agriculture sector. A

decline in the unemployment rate from 8% (1993) to 7% (1994) was largely due to a decline in the labour force and an increase in employment.

The Provincial Government made significant progress in 1994 towards balancing the provincial accounts. The Government's mid-year report for 1994-95 projected a deficit of \$87 million, which was \$102 million less than initially forecast. The Government reports it is on track to balance its budget by 1996-97. To meet these goals they took action involving cuts to provincial programs, increased taxes, and government restructuring. Success in meeting these targets was assisted by increased revenue through improved economic conditions and good crops, increase in oil and gas activity and strong price and sales in potash and other mining.

INDICATORS

The pace of retail sales growth continued to accelerate in 1994 after an excellent year in 1993. In the first nine months of 1994 Saskatchewan had the second highest rate of increase (9.1%) in retail trade of any province, surpassed only by British Columbia at 9.4%. Much of the increase has been in household appliances, furniture, and automotive products as consumers took advantage of lower borrowing rates.



The employment picture for those aged 15 years and over has improved although much of Saskatchewan's prosperity is not being fully reflected in new jobs. The number of persons in the labour force in Saskatchewan has increased by 3,000 and 2,000 more persons are employed this year as compared to the same time last year. Despite this

growth it is believed that the 1994 unemployment rate drop is due more to work force discouragement and outward mobility, not just increases in employment. In terms of performance by sector, the largest employment increases were recorded in trade (6,000 employees); followed by construction (2,000); and, community business and personal services (2,000). The unemployment rate averaged 7% in 1994, the lowest in the country.

Domestic exports increased 31.1% between September 1993 and September 1994. Gains were recorded in agriculture products, energy products, forestry products, industrial goods, machinery and equipment. A declining Canadian dollar and productivity improvements are credited with leading to these improvements.

Saskatchewan population increased to 1,016,200 in the third quarter of 1994, a 0.4% increase since the third quarter of 1993. Although out-migration continues, it is being offset by heavier interprovincial in-migration. The increase in the third quarter population marks the seventh consecutive quarterly increase in population.

MOOD

Reports and surveys indicate that optimism is high in Saskatchewan. Sask-Trends monitor say the increase in retail sales is due to the provincial government getting its financial house in order. The Consumers' Association of Canada is also optimistic for 1995; however, this mood would be turned around if federal, provincial, and municipal governments continue to raise taxes. The results of a November 1994 omnibus poll, released in a report by the province, shows that public and business confidence in Saskatchewan's economy is increasing dramatically. Forty per cent of respondents said the economy will improve in the next 12 months, compared to only 22.5 % in April 1994 and a low of 16.6% in September 1993. Public perception of job prospects also improved substantially. In November 31.6% of respondents said the job situation will improve during the next 12 months, compared to 13.8% in April 1994. The polls indicated concern that the main household earner might become unemployed in the next year has eased. In November, 57.4% were not concerned that they might lose their jobs, compared to a low of 48.1% in September 1993. Jobs, the economy and the provincial deficit continue to be the major issues as seen by the public.

Most business surveys in the province in 1994 indicated optimism about the provincial economy in 1995. The main concern heading into the new year is the province's new labour legislation and the pending federal budget and its impact on taxes.

KEY SECTORS

AGRICULTURE

The 1994 crop harvest is the fifth largest on record. Unlike previous years, the quality of the crop was well above average. Producers in the province seeded record acreage of canola, mustard, lentils, field peas, above average acreage of durum, oats, barley, spring rye, flax, and sunflowers. A 19.7% increase in crop receipts was insufficient to offset

large reductions in program payments (78.7%) and livestock (10.8%), leaving a net farm cash decrease of 5.9%. In the short-term, world wheat prices are expected to improve only modestly; however, prices should remain strong for high quality wheat. Durum wheat and canola receipts are expected to continue to be strong, a result of relatively favourable prices. Producers in Saskatchewan are unlikely to abandon the income hedging gained through increased crop diversification.

MINING

Saskatchewan oil patch is thriving. Oil production is at an all-time high and land sales are setting records. Higher prices and improvement in technology such as horizontal drilling are causing this growth. Year-to-date crude oil production has increased 18.6%.

Potash production is rebounding and a recent sale to China of 800,000 tonnes boosted sales to China for 1994 by 100%. Year-to-date potash production increased 22% as of August 1994. In December 1994, Vigoro, a Chicago-based potash producer announced a \$200 million purchase of a mine at Colonsay, Saskatchewan. Vigoro is a major manufacturer and distributor of potash, nitrogen-based fertilizers and related products for farm and industry use. Together with its Kalium holdings, it now holds 10% of the province's capacity to produce potash.

Manufacturing shipments increased 17% from September 1993 to September 1994. Leading the growth in manufacturing are food, machinery, wood, electrical, and chemical products. Other increases were recorded in plastics, leather products, textiles, clothing, wood and fabricated metal products.

Uranium production continued to be relatively consistent in Saskatchewan over the last decade. In the first seven months of 1994, production has increased by 8.4% in volume. World demand is expected to remain strong in 1995.

TOURISM

Tourism showed strength and new direction in 1994. The discovery of Scotty, the Tyrannosaurs Rex skeleton, in Eastend provided a new experience for tourists this last summer. Preliminary statistics show growth in the following

areas for 1994: Number of U.S. residents entering Canada (5.9%), hotel occupancy (3.5%), total retail sales (9.6%), and restaurant receipts (7.1%). The slumping Canadian dollar was seen as a determining factor as many Canadians decided to stay within Canada instead of travelling abroad. This can be seen within Saskatchewan as the number of Canadian residents returning from the U.S. dropped by 22.6% in 1994. With statistics like that it is easy to see why the tourism industry within Saskatchewan, as a whole, remains optimistic.

The Prime Minister announced in October 1994 the establishment of a Canadian Tourism Commission (CTC). The CTC is to be a partnership between the industry and both levels of government. The Prime Minister also announced an increase in federal funding to 50 million dollars a year for tourism which would go towards the CTC. The goal of this new partnership "should be to create a 100 million dollar marketing fund that will re-establish Canada as a force in the global tourism industry".

The creation of the CTC follows a similar decision by the Saskatchewan government to create the Saskatchewan Tourism Authority (STA). The STA represents the first provincial tourism authority in Canada. As the board chairman of the STA, Dick DeRyk, stated, "this 'passing of the torch' to our industry marks the start of a new era for tourism, not only in Saskatchewan, but in Canada". The STA will be responsible for the province's overall tourism marketing, the "Destination Saskatchewan" funding program, and services in visitor information, research, and tourism education and training.

Another recent development saw the introduction of the Tourism Alliance for western and northern Canada. The Alliance partners are the six provincial/territorial industry associations, Western Economic Diversification, Industry Canada, Canadian Heritage and the Department of Indian and Northern Affairs. The objective of the Alliance is to develop a stronger image in the marketplace and to compete effectively against other destinations, spotlighting western/northern

Canada as the destination of choice. A Memorandum of Understanding between the partners has been developed and the project is expected to be underway by April 1995.

OBSERVATIONS

IPSCO says the steel industry is strong with prices strengthening. They are currently working at full capacity. The company plans to have their new Iowa plant come on stream in the spring of 1996, giving them the capacity to produce wider plate.

Saskatchewan's non-agricultural primary resource sectors are performing very well. The falling Canadian dollar and rising commodity prices which are following strengthening markets will combine to generate significant returns from this sector in 1995.

The province's resource base is capable of sustained and relatively low cost production of many resource commodities. Significant investment is currently being made in the uranium industry although the orderly entry of highly enriched uranium to the civilian reactor market remains a major concern.

Announcements are anticipated which will reveal the extent and nature of future industrial development of the forest resource in north east Saskatchewan. The provincial government is planning to introduce a bill which would establish a Forest Resource Management Act to replace the current but outdated Forest Act which focused on the disposition of timber, hay and grazing rights. The new act would incorporate specific provisions for conservation, forest management, including procedures for public involvement, and development of the forest resource.



QUEBEC PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

In 1994, the Quebec economy had its best performance since the late 1980s, with a real economic growth rate of approximately 3.9% (estimate of the Caisse de dépôts et de placement du Québec) and 70,000 new jobs. Most analysts expect the province's real GDP to increase by 3.4% this year, slightly below the estimated national increase of 3.7%. The main uncertainties that will affect the development of Quebec's economy this year are the level of interest rates, the impact of measures to put public finances in order, and the results of the referendum consultations.

INDICATORS

The provincial GDP grew at an annual rate of 4.2% in the third quarter (seasonally adjusted constant-dollar data) over the previous quarter (3.5% over the third quarter of 1993). This strong performance does not reflect an increase in domestic demand, which dropped by 1.1% from the second to the third quarter (annual rate). The increase in GDP is actually due to a substantial decrease in imports, while exports remained relatively stable. With regard to final domestic demand, almost all major expenditure categories (private and public fixed capital investments, current government expenditures, personal expenditures on services) were down compared with the second quarter. The only increases were for personal expenditures on goods (4.5% increase, annual rate) and business expenditures on machinery and equipment (13.1%).



The cautious return to stores by Quebec consumers was confirmed by the increase in the value of assets held in Quebec by Canadian chartered banks in the form of personal loans through credit cards. The value of these assets increased from \$2.3 billion in the second quarter of 1994 to \$2.4 billion in the third quarter. There was also an increase of 3.6% (annual rate) in retail sales in October and November, compared with the third-quarter average, and of 5.3% compared with

the same period in the previous year. Despite this undeniable progress, it is very likely that this upswing in consumer spending on goods is only a flash in the pan. Thus, a sustained recovery in consumer spending cannot really be anticipated, given the level of interest rates, the very low savings rate (7.1% according to the latest estimate from the Department of Industry,

Commerce, Science and Technology of Quebec), stagnation of income (for example, the average hourly fixed-weight wage increased by only 0.4% in January to October 1994, in comparison with the same period in 1993), and the still high number of social assistance recipients (estimated at 797,700 in February 1995) and unemployed (422,000 in December 1994). Furthermore, the Conseil québécois du commerce de détail expects that retail sales will increase by only 3% this year, compared with 4% in 1994.

The employment situation in Quebec worsened in December with the disappearance of 8,000 seasonally adjusted jobs. Apart from a substantial increase in November, the number of jobs in the province has been dropping since July. This downturn in employment and an increase in the

labour force caused the unemployment rate to increase from 11.4% in November to 12.1% in December. Despite this bad news, it must be noted that in 1994, on average, the number of jobs increased by 2.4%, which corresponds to 70,000 new jobs, the best performance seen in Quebec in six years. The increase in the Statistics Canada help-wanted index (1991=100) from an average of 100 in the third quarter to 101 in the fourth and 102 in January 1995, in addition to the increase in the percentage of employers who intend to hire additional staff in Montreal in the first quarter of 1995 (survey by Manpower Temporary Services), raise hopes that the Quebec economy will soon return to its pre-recession employment level, which was 3,089,000 jobs in April 1990. The current employment level is 3,056,000 (December 1994).

The manufacturing sector continues to grow, and deliveries in the fourth quarter of 1994 were 4.5% higher than in the previous quarter and 13.5% higher than a year earlier. These data make it possible to measure the progress made in the manufacturing sector in the past year. The health of this sector is also reflected by the number of bankruptcies. In November and December 1994, bankruptcies by manufacturers accounted for only 9% of all business bankruptcies in Quebec.

Finally, with regard to new businesses, the situation is stable; the number of new businesses in Quebec (measured by the number of payroll deductions accounts) increased by only 0.1% from the third to the fourth quarter (1% compared with the fourth quarter of 1993). The number of self-employed workers remained unchanged in the fourth quarter of 1994 compared with the same period in 1993, at an average of 410,000 workers.

MOOD

The confidence of Quebec households did not increase or fluctuate a great deal in 1994, at least according to the Conference Board's Quebec home confidence index (seasonally adjusted, 1991=100). This indicator, which stood at 108.7 in the first quarter of 1994, was at 108.8 in the fourth quarter. It will be interesting to track this indicator as the referendum deadline approaches. In contrast, according to a survey conducted in mid-December 1994 by the Léger & Léger group for the *Journal de Montréal*, 67.4% of the Quebecers surveyed said they were optimistic for 1995 and the future, an increase of 6% over the results from the

previous year. The survey results also indicate that the employment situation is less of a concern for Quebecers than it was at the same time in 1993, when 39% of those surveyed were optimistic in this regard, compared with 46.8% of respondents in December 1994.

Business managers are also optimistic. According to a survey of a sample of certified managers in Quebec conducted by the Léger & Léger group in co-operation with the firm Gestion financière Talvest, it appears that Quebec businesses will see an increase in their sales (87% of respondents), profits (74% of those surveyed), investments, notably in product quality (87%), technology (82.5%), labour force training (69.3%), and research and development (63.6%). In addition, 59.1% of the certified managers surveyed believe that businesses will hire more staff during the year.

KEY SECTORS

Traditional industries

In the metals market, the strengthening of prices in 1994 allowed a number of producers to get back into the black, and the value of deliveries for mining companies should be up by almost 4% in 1994. Similarly, the number of active mining claims (data from January to November) was substantially higher than the number reported in the previous year, reflecting a revival in prospecting activities. Nevertheless, the transfer of capital from large mining companies to developing countries where environmental standards and operating costs are more "competitive", poses a threat to the industry's long-term development. Finally, according to a statement by the head of the Quebec Mining Association in the magazine *Les Affaires*, access to the resource will also be a major issue for the mining industry in 1995.

The latest data available indicate that food products top the list of Quebec imports from other provinces, and are in third place in terms of Quebec's exports to the rest of the country. Most of the province's business in this sector is with Ontario. Quebec's agri-food industry employs 225,000 people and constitutes a market of almost \$19 billion a year. As Quebec's Minister of Agriculture, Fisheries and Food, Marcel Landry, recently remarked, the challenge facing this industry is to close the productivity gap with its competitors and to specialize in market niches in

which it excels. According to the Minister, government's role is to provide businesses in the sector with services and training that are better adapted to their needs and a simpler regulatory framework.

The substantial slowdown in starts observed in late 1994 has caused demand for **lumber and building panels** to drop. Lumber prices have dropped appreciably since November, compared with the high prices seen at the beginning of 1994. This drop, which is normal for the winter, should not last too long, and with cuts to allocation of raw materials in both the United States and British Columbia, Quebec should be able to sell all of its production of lumber and panels in 1995, at very advantageous prices. It should be noted that the timber price paid to Quebec's Department of Natural Resources will increase by 30% in 1995. Similarly, the price of wood chips will probably increase by approximately 20%. Lumber companies (Normick, Forex, Stone Consolidated, Uniforêt and Donohue) are currently making major investments to increase their productivity. The **pulp and paper** industry should have an excellent year in 1995. The market was able to withstand a number of price increases, and demand continues to be very high. In addition, all plants have confirmed that they will meet the new environmental standards by September 1995. The only problem for the forestry industry in Quebec is that it does not produce a greater added value to manufactured products, either for pulps and papers or for softwood lumber mills.

Recent market developments were favorable for producers of **major household appliances**, and this trend is expected to continue in the coming months. Demand for products from three Quebec plants (Inglis, Camco and Frigidaire) is strongly tied to the recovery of the North American economy. These plants have North American orders and export a substantial portion of their production to the United States, thus benefitting from the current value of the Canadian dollar in relation to its U.S. counterpart. Despite growing revenues, a number of weaknesses remain with regard to profits and productivity, and the employment level remains below levels in the late 1980s. In addition, the future of the sector lies in strengthening existing North American orders or acquiring new orders, and in developing a better local sub-contracting base.

For the **textile and clothing industry**, the coming months will be crucial for the rest of the year. Until a few weeks ago, the level of interest rates remained acceptable and did not affect this sector very much. The situation has considerably worsened in recent weeks, however. According to the industry, the rise in interest rates, steady growth of the deficit, political uncertainty stemming from the referendum, and the fall of the dollar on foreign exchange markets, are eroding consumer confidence, which was on the upswing at the end of last year as reflected in increased spending during the holiday season. This situation could slow down or reduce the scope of planned investments. The very recent announcement of a number of retail chain closures will also affect a number of local producers. In the meantime, the low value of the Canadian dollar is a major advantage for the sector, because exports (mainly to the United States) are continually increasing, while a number of manufacturers have repatriated a part of their Asian production to Quebec.

The **plastics** industry in Quebec comprises some 650 businesses, of which 80% are small businesses. The industry's sales are currently increasing because of the favorable business cycle and the creation of new products by substitution effect. The high demand for plastic products is reflected in the appreciable increase in prices for raw materials and in delivery terms. Competition remains strong in this sector, and the trend is toward lower prices, despite the higher cost of inputs. Investments are also on the increase, and a number of businesses are considering plans to purchase new equipment, expand existing production facilities, and install new production units, especially in the packaging and furnishing product sector. The weakness of the Canadian dollar, however, is slowing modernization of production equipment, since most equipment is imported. Opinions are divided regarding a labour shortage in this sector.

From all indications, the **machinery** sector in Quebec had a good fourth quarter. Businesses serving the resource sector (forestry, pulp and paper, mining) and even the manufacturing sector in general are doing well, as are their clients. There is concern, however, about rising interest rates and their effect on the economy in general and, indirectly, on the machinery sector. On the other hand, the fall of the Canadian dollar is good news for businesses in the sector that export, because it gives them an edge over local suppliers.

and allows them to break into new markets. There is a risk, however, that some businesses are hiding behind the value of the dollar to conceal their lack of competitiveness. Finally, the lowering of tariff barriers continues to benefit businesses that have products in a particular niche or that design customized products. Current negotiations to expand NAFTA are a source of inspiration and encouragement for businesses in this sector to broaden their horizons, and they are increasingly aware of the need to look beyond local and domestic markets.

Quebec's energy production, transportation and distribution industry was shaken by the announcement in December that the Great Whale project had been put on hold indefinitely, and by the postponement of Hydro Québec's investment schedule for mini-power stations and co-generation. The termination of major capital projects by Hydro Québec (the industry's main client) confirms the unfavorable trend in local demand. Quebec's **electrical equipment** industry is thus stepping up its prospecting activities on foreign markets. These efforts are starting to bear fruit: during Prime Minister Chrétien's recent visit to China, a number of Quebec businesses (GE, GEC Alsthom, Dessau) announced that they had broken into this enormous market. The industry currently exports only some 15% of its production.

The trend in the **automobile** industry is still positive. The only noteworthy event was the snap strike by some employees in a department of the GM plant in Ste. Thérèse, which disrupted production for one day. The Hyundai plant remains closed indefinitely. With regard to subcontractors, Montupet intends to step up production of cylinder heads for Northstar engines (Cadillac and Aurora) from 1,000 to 2,400 units a day by the summer. The company is also developing a V-8 cylinder block for Corvette, Camaro and Firebird. Waterville TG has just completed a 125,000 ft² expansion and is installing production lines for gaskets for Saturn. Finally, in December, Hydro Québec researchers unveiled an electrical drive wheel propulsion system for automobiles. This concept involves the installation of an electric motor in each of the vehicle's wheels.

With regard to **mass transit equipment** manufacturers, Novabus Corp. has purchased the assets of the MCI/TMC company used to produce "RTS" buses. This makes Novabus the North

American leader and the only company that can offer a complete line of products to meet all urban transit needs for buses. It should acquire 50% of the annual North American market of 3,500 units. In the **rail** sector, AMF Technotransport is operating at full capacity in restoring locomotives and manufacturing rail cars for the U.S. Army. The provincial government has proposed a strategy to ensure the short-term survival of the MIL-Davies **shipyard** in Quebec City. This proposal involves building a new ferry that will operate between Matane and Godbout, and repairing the current ferry between the two municipalities. The renovated ferry will then be put in service between the Magdalen Islands and Prince Edward Island.

All signs indicate that the **home construction** sector will remain sluggish in the coming months, especially since the recent rise in interest rates could offset some of the expected benefits of Quebec's "Premier toit" program. The program gives first-time new-home buyers a tax credit for a limited time equivalent to 20% of their mortgage interest. For 1995 as a whole, CMHC expects that only 32,200 housing units will be built, down 2.8% from the previous year. If this prediction holds true, it will be the lowest number of housing starts in Quebec since 1982. The last hope for the industry in 1995 will thus lie in the home renovation and non-residential construction sectors, where a number of major projects are under way (Forum, École des HEC, ICAO building, Quebec City congress centre and the expansion of the Montreal congress centre in the near future). Furthermore, reregulation of the construction sector under Bill 46 (which makes residential construction projects subject to a collective agreement) will also have an effect on the construction industry which is yet to be determined.

New economy

The **telecommunications** sector continues to expand, and in recent months its work force, productivity and prospecting efforts on new markets (Latin America, Asia-Pacific and Western Europe), have all continued to grow. Most businesses report difficulties in recruiting technical staff, although the situation differs from one firm to another in this regard. In a new development, some firms report that they are now having difficulty recruiting senior executives in Quebec, especially in the marketing field. One company in the sector indicated that it is cautious in transmitting strategic information to

Canadian trade officials posted abroad because it fears that this information may inadvertently be passed on to competitors, despite the new policy of the Department of Foreign Affairs and International Trade in this regard.

The Videotron Group consortium of service businesses is continuing its preparations to launch Phase I of the UBI project (**information highway**). This initial implementation phase will entail connecting all 34,000 Videotron cable subscribers in the Saguenay region to the UBI network. UBI equipment in subscribers' homes will consist of a fully bidirectional terminal, a remote control, a transaction module (credit or debit card reader and a miniprinter), and a smart card. The terminal will have an IBM Power PC processor. The unit will also have a connection for a microcomputer. The project is expected to pay for itself in the medium term, not through higher cable rates but through revenues from service suppliers on the network. The federal government is studying the possibility of using the UBI network to disseminate government information. Discussions are currently under way with the Department of Human Resources Development, Revenue Canada, and the Info-entrepreneur business service centre.

Developments in the **aeronautics and defence** sector are still positive, and it can be seen that the jobs lost in recent years are being regained. The situation naturally varies from one business to another. Some small businesses are operating at full capacity, while others have still not recovered their pre-recession sales level. Some firms express concern about the price of raw materials, notably the higher price for aluminum. Other companies indicate that the advantage of the weak Canadian dollar has been offset in part by the loss of defence contracts in the United States. In more general terms, it has been seen that a number of businesses in the aeronautics sector have tried to diversify into the medical and land transportation fields, to increase their volume. Large and small businesses that rely substantially on military contracts also continue to make efforts to diversify, but results so far have been mixed.

The **advanced industrial materials** market is expanding rapidly. For example, the demand for polymer matrix composites is increasing by 10% to 15% a year because of new uses in the building and transportation industries. Unfortunately, as is the case with metallic advanced materials, the industry

does not have the capacity to meet this new demand. This situation should lead to new investment in this field in Quebec, notably from a firm that subcontracts for the transportation sector and is considering a project that could create 400 new jobs.

In 1994, the rise in interest rates, the relatively weak recovery in consumption, and the health insurance plan of the Clinton administration, slowed down the growth of activity and creation of new businesses to some extent in the **biotechnology** field in Quebec. In addition, the scarcity of major risk capital led a number of businesses to seek strategic alliances. While the weak Canadian dollar did not really drive exports, it did encourage foreign companies to conduct research projects in Quebec and set up some facilities to serve the North American market (such as Astra Pharma and Servier). According to the industry, the main obstacles to investment and job creation are uncertainty regarding regulation and lengthy waits to obtain approval. In the medium term, the application of a number of planned legislative reforms should soften this criticism.

In the short term, the current weakness of the Canadian dollar in relation to the American dollar is helping businesses in the **medical products** sector to increase their profit margins substantially without having to make real productivity gains. Such gains are becoming necessary, however, because businesses in this sector must face increased competition as a result of cuts to the health care network, which have made buyers look more closely at the cost and medium-term benefits of using a product. In the longer term, according to the head of the Association québécoise des fabricants de l'industrie médicale, this sector has the potential to double its export volume (\$125 million, or 50% of sales), if it forms alliances.

Quebec's **environmental protection** industry is made up of equipment manufacturers and subcontractors, and engineering and environmental management consultants. After acquiring experience in treating municipal wastewater, the industry must now acquire or develop technologies to meet industrial wastewater treatment requirements. These technologies require different procedures depending on the type of business. Paper companies are currently making substantial investments in this area, and the oil, iron and chemical industries will have to follow suit. Even

farms will have to make this type of investment: it is estimated that 2,600 farms will have to carry out work at an average cost of \$75,000. In addition, Quebec's environmental protection industry must not only retool, but also succeed in penetrating foreign markets, which is a key element to its survival and growth. Moreover, government assistance programs must be flexible enough to help the sector. This is not always the case, as evidenced by the fact that the Environmental Technology Commercialization Program excludes all environmental management software projects (a market of at least \$600 million in North America which is growing by 20% a year). This is also true for CIDA's assistance programs.

The **advanced production technology** sector (computer hardware and software, electronic system and systems integrator firms) depends on demand generated by the manufacturing sector. This sector's strong growth on domestic and foreign markets is thus favorable to advanced production technology manufacturers, especially in the case of systems integrators, whom the current value of the Canadian dollar has allowed to position themselves better on the U.S. market. In the coming months, it is estimated that the domestic market will be relatively strong, thanks to continued investments by manufacturers and the catching-up that the manufacturing industry has to do in terms of productivity. On the other hand, the change in the value of the Canadian dollar on foreign exchange markets could adversely affect the competitiveness of Quebec electronic system and equipment suppliers.

Services

For the **tourist sector**, 1994 was a year of recovery. The value of the dollar not only stimulated visits by American and European tourists, but also encouraged Canadians in Quebec and other provinces to spend their vacations in Canada. A number of figures confirm this recovery: hotel occupancy in downtown Montreal increased from 56% from January to September 1993 to 62% in the same period in 1994. In Quebec City, the number of bed nights reported was up by 6% over the previous year. The situation is expected to be even better this year. According to the firm Horvath Consultants, Quebec's tourism industry should experience at least a 3% increase in occupancy in 1995, and an increase in average room rates of at least \$2 (\$4 in

urban centres). In addition, a number of investments are currently under way. The Palais des congrès in Quebec City is being expanded. The Montreal congress centre expects to get the go-ahead shortly to begin work that will double its capacity. Intrawest is maintaining its fast-paced development in Mont Tremblant to make it the premier ski resort and village on the east coast. The Montreal Casino has been so successful that an addition is being built to increase its capacity, and two other sites (Hull and La Malbaie) have been chosen to expand the network of casinos in the province.

OBSERVATIONS

The tax credit formula continues to be popular with Quebec businesses. Already highly appreciated as a research funding tool, the refundable tax credit is now being used by businesses to fund training. According to the Société québécoise de formation de la main-d'oeuvre, between September 1993 (when this provincial initiative was launched) and August 1994, some 1,776 businesses used this tax advantage, and that number is growing.

The shortage of jobs has not been limited to the high tech sectors. For example, overly restrictive entry quotas at the province's two road transport training centres, coupled with the growing popularity of "just-in-time" management practices in the manufacturing sector, have caused a shortage of heavy vehicle drivers in Quebec. The Quebec Trucking Association currently estimates there are 2,000 trucking jobs (especially for long-haul drivers) in the province that have not been filled.

A recent survey by the firm Price Waterhouse reveals there are 100 businesses in Quebec's manufacturing sector that employ more than 500 people. Sixty of these businesses are owned by non-Quebeckers and employ more than 85,000 people, or 16% of the manufacturing labour force in the province. Eleven of these firms are headquartered in another Canadian province, while 49% are foreign firms. The survey also reveals that since their initial implementation, more than 80% of investments made by the largest non-Quebec manufacturing firms were used mainly to build plants, rather than to acquire existing Quebec businesses.

According to the Office de la langue française, francization of Quebec businesses continues, as evidenced by the fact that 177 new businesses with

50 employees or more obtained their francization certificate in 1993-94. The proportion of large and medium-sized businesses (that is, those with 50 employees or more) that have obtained their certificate now stands at 77%. The most difficult sectors to francize are apparently the automobile, road transportation, aeronautics, aerospace, electric and electronic products, printing, publishing, and information technology sectors.



PRINCE EDWARD ISLAND PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

The local economy, led by the potato industry supplemented by lobster exports and tourism, remains strong. Employment, mostly in export oriented production, has increased about 3% during the year. Retail sales have yet to recover fully; this apparently reflects a continuing public concern about employment, earnings levels and, possibly, the impact of reduced Federal social spending.

INDICATORS

Consumption of electrical power continues to increase at a 3 to 4% annual rate reflecting industrial growth, primarily export led, in the processed food sector, the fixed-link construction project and a nominal (2%) expansion in the home market. Slightly less growth is expected in the coming year.

Island Telephone Limited has shown, throughout 1994, growth exceeding 6% in demand for access services. This was generated by industrial expansion and new business arising out of the fixed-link project. Similar growth is projected in 1995.

The Guardian newspaper advises that local advertising sales in 1994 indicated steady economic growth although near the end of the year activity became rather sporadic. No trends have been established since: sales vary unpredictably from day to day. The Island economy appears undecided.

Statistics Canada data shows a nominal growth in wages and salaries. This (near) stagnation is

reflected in retail sales which increased during September 1994 compared to September 1993 but, more recently, show a declining trend on a monthly basis.

C.M.H.C. informs that housing starts in 1994 totalled 669 units. The agency expects less 1995 activity with about 550 units to be built. Resale activity was weak at the end of 1994; rising interest rates suggest that this market will not recover in the near future. The only announced industrial project so far is an expansion of the McCains facility at Borden. Much of the effect of the fixed link has been felt. Therefore industrial construction is not expected to have a major impact on economic growth this year.

H.R.D.C. reports that the labour force, employment and the participation rate have all risen over the year; in total there are about 3,000 more employed than in December 1993 while the unemployment rate has fallen to 15.% (seasonally adjusted).

U.I. and social assistance disbursements have fallen and remain below recent high levels.

Consumer price inflation has stabilized although the removal of the year over year effect of the elimination of tobacco taxes plus rising interest rates and raw material costs will increase the inflation rate in 1995 - possibly to the 2% range.

The Conference Board of Canada forecasts real GDP growth of 3.0 and 2.2 percent in 1995 and 1996. APEC predicts 3.2% growth in 1995.



MOOD

The mood of the Province is cautious but positive. The major sectors affecting the economy have performed well. The fixed link project is proceeding. The fishery, agriculture and tourism industries have enjoyed good seasons. The fallout of the recession has mostly finished flowing through the system; the major impacts of government wage restraint or cutbacks and work force reductions have been absorbed. Even the recent closing of several marginal retailers and services will benefit the remaining businesses as clients shift their trade and thus strengthen or stabilize this sectors' customer base. Concerns remain over the impact of expected Federal government restructuring and its effect on social programs and transfers.

KEY SECTORS

Manufacturing: Manufacturing employment continues to rise, along with new capital investment in facilities, to support growing sales including exports which are up some 17% (over 18% to the US). This expansion has been led by food, wood products and equipment. The sector is optimistic following a year of increasing sales and a general return to profitability. The still falling value of the Canadian dollar should encourage continuing export expansion.

Resource Industries: The fishery is closed for the winter. Landing statistics are not yet available but it is generally believed that these are down for almost all species. Sales, on the other hand, are up. The ground fishery was sharply reduced and no improvement is in sight. The bivalve fishery remained constant with some growth, which will continue, in the culture and sale of mussels. The shell fishery, despite reduced landings, improved sales and profits as it was able to pass major lobster cost increases on to the market - while running inventories down to a minimum. Overcapacity (harvest and processing), lack of innovation and weak plant productivity still present threats to the long term future of this P.E.I. industry.

In **agriculture**, potatoes dominate the Island scene; about 92 thousand acres were planted and harvested with yields averaging 235 cwt. per acre (down somewhat due to dry soil conditions). Quality is excellent as indicated by robust table potato sales

into the US at prices well above those received by Maine growers (small bags of P.E.I. potatoes were recently selling in Boston @ \$1.40 compared to \$.80 for local product). Seed market exports to date have doubled those of last year. The local McCains and Cavendish Farms processing facilities are running almost non-stop and indications are for further increased demand. The tobacco industry enjoyed excellent yields and recently sold the 1994 crop to the major Canadian buyers; however this industry is nearing an end as the buyers have signified that they wish to retrench all purchasing to Ontario and will not purchase raw tobacco after 1996. Supply managed production is waiting the outcome of renewal negotiations. Other agricultural production seems to be steady.

Services: **Tourism** continues to be one of P.E.I.'s premier industries. During the 1994 season 759,133 pleasure and business travellers spent \$157.2 million (1992 constant dollars) representing a 28.6% increase over 1993. Another \$43.5 million was expended by local residents on local tourism products or entertaining off-Island guests.

Our industry remains dependant largely on regional and domestic markets augmented by US and international visitors who represent about 12% of all visitations.

The **public service** dominates the service sector. Excepting the educational and health care fields the Provincial reorganization has been largely completed. Provincial revenues and outlays are on target and no surprises are expected. The impact of the wage rollbacks has been absorbed (at a cost of reduced consumer spending). At this point the public service is steady and its impact on the economy is probably best described in the same way. Neither growth nor fallback are expected. The federal Program Review exercise could, however, impact negatively on the provincial economy depending upon the outcome of negotiations on social program delivery and levels.

In the **construction** field, a number of "Infrastructure Program" proposals have been submitted and the program is expected to lever \$18 million Federal funds, in 1995 and in 1996, with provincial and municipal funds to renew aging infrastructure. The fixed link project will also continue to fuel the economy as the wages of some 2,000 workers are spent on food, clothing, etc.

A few other projects including the McCains expansion, a rumoured addition to the Cavendish Foods facility, the hoped for Food centre at Souris and the relocation of an expanded Humpty-Dumpty potato chip production (with concurrent creation of up to 100 new jobs) by Small Fry Snack foods to the Slemon Park area could contribute further.

OBSERVATIONS

On balance, the past three months have been buoyant and the outlook over the near term remains good. The consumer is optimistic although maintaining control of expenditures pending further signs of economic and income stability.



ONTARIO PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

Building on a strong performance over the past year, particularly in the manufacturing sector, Ontario's economy will grow at a healthy pace in 1995, though somewhat less robustly than the previous year. Economic growth will be fuelled primarily by exports and investment in machinery and equipment, with consumer spending making some contribution. The main risks to the economy's current pace of growth is the extent to which monetary tightening will impact key sectors and the performance of the US economy.

Ontario continued its economic expansion at a rapid rate in the third quarter of 1994. Real GDP grew 7.1% on an annualized basis and currently stands 1.5% above its pre-recession

peak in the third quarter of 1989. Although down from 8.8% in the previous quarter, final year-end growth for 1994 is forecast to reach 5%, its strongest performance since 1989.

The strong growth is being driven by business investment and the external trade sector. Investment in machinery and equipment continued to rise at a brisk pace, but more importantly, non-residential construction made its first contribution to output growth since 1991, signifying this sector has bottomed-out. Coinciding with strong investment is surging corporate profits, especially in export-oriented manufacturing companies. With a falling Canadian dollar, total export growth exceeded imports substantially, however machinery and equipment continue to swell on the import side. The largest gains in merchandise exports were

recorded in motor vehicles, office machines, chemicals and steel.

Despite falling unemployment and relatively healthy attitudes towards the economy, the consumer's sensitivity to rising interest rates is becoming apparent. Growth in consumer spending has subsided and is most evident in durable goods. Constraining the pace of economic expansion is a marked decline in the residential construction

sector, with weak housing starts in the second half of the year. Tight fiscal conditions have led to the fifth consecutive reduction in current government spending (all levels) on a quarterly basis.

INDICATORS

Ontario's strong economic performance last quarter shows little sign of slackening, as substantiated

by several key indicators. Total lay-offs in 1994 fell 27% over the previous year, while seasonally adjusted employment increased 3% year-over-year, helping to push December's unemployment rate down to 8.4% from 10.7% in just twelve months. For its part, the Help Wanted Index (1991=100) climbed to 107 in December, an annual increase of 26%. Better employment conditions have reduced Unemployment Insurance caseloads (active claimants) by 29.1% between January and November.

Improving business prospects have driven annualized third quarter corporate profits 56.9% higher in 1994, reaching a five-year high, while cumulative business and consumer bankruptcies in November (year-to-date) dropped 16.0% and 6.1%, respectively. The Ontario manufacturing sector



posted a 10.2% increase in shipments in the first ten months of 1994, based on strong US export demand. US economic growth, a fundamental element to Ontario's expansion, continued strong with a 4.4% rise in GDP in the third quarter.

Ontario's annual inflation rate ending December, as measured by the Consumer Price Index, was only 0.1%, illustrating the reluctance of producers and retailers to pass on price increases to the consumer. Total wage settlements of 70 collective agreements negotiated in the third quarter averaged 0.8%, twice the rate of the previous quarter. Manufacturing had the highest base wage hikes at 2.0%. Retail sales during the Christmas shopping season were 10% ahead of last year for many major retail chains.

Although economic growth is becoming much more broadly based, some key areas remain flat. This is apparent in the market for new homes, which has not improved over 1993. CMHC forecast a decline in annualized housing starts to 35,200 units in December, from 40,700 in November, while monthly residential building permits in November fell 10.1%.

MOOD

Some early signals suggest that consumer confidence is beginning to falter with rising interest rates and the prospect of higher taxes. According to Decima's December survey, the number of consumers that feel it is currently a bad time to make a major purchase increased three percentage points to 57%. Significantly fewer are likely to make such a purchase in the next six months. Supporting these findings is the Conference Board's Index of Consumer Attitudes. Although the index peaked in the last quarter of 1994, many consumers are reluctant to make major purchases in the short term because of rising interest rates and slow income growth. They note little improvement in their financial position since the recession.

The business community is generally optimistic about 1995, according to the Conference Board's Index of Business Confidence, which improved by 4.4% over last quarter. Participants indicated that their financial conditions have staged a dramatic rebound and production levels are quickly approaching full capacity. Although the majority of capital spending in plant and equipment remains targeted for Ontario, fewer business leaders felt it was a good time to undertake a major investment

because of current interest rate trends.

According to Decima Research, 24% of Ontario residents polled in December characterize the economy as good or excellent compared to 19% last quarter, mainly because of better employment conditions.

KEY SECTORS

Resource-Processing Industries

A dramatic rebound in base metal prices has improved the profitability and investment intentions of the mineral industry. Copper prices have risen to a six-year high, reacting to increased Asian demand and news of stronger European growth. The optimism sparked by a 65% jump in the spot price of nickel has prompted Inco Ltd. to boost 1995 production 25% by sharply reducing down time and investing \$160 million to bring a Sudbury mine into full production. Zinc has experienced very little price movement and is expected to remain relatively flat, largely due to world oversupply. The gold industry applauded the federal government's decision to drastically reduce sales of gold reserves through the Bank of Canada, which it argued kept gold prices artificially low by saturating the market.

Ontario's agriculture sector had a good crop year with farm cash receipts 4% ahead of last year. The food & beverage processing industry is performing well. It has reacted to global competition by investing heavily in new machinery and equipment and has taken advantage of export markets, primarily in the US. Ontario's food industry leads the nation in terms of exports, which have been growing by 27% on average over the past three years.

Unprecedented price increases for pulp will dramatically improve producer profitability in 1995, as North American demand remains high. Newsprint is also expected to have sharp price increases early in the new year, although it has lagged compared to pulp. Wood products industries created nearly 2,000 jobs in 1994 by investing \$800 million to increase capacity; investment in 1995 is projected to top \$1 billion. The recent decision by a NAFTA trade panel on US countervail duties in favour of Canadian softwood lumber producers is viewed as a major victory for the industry, which may result in even greater access to the US market at highly

competitive prices. The Ontario government recently moved to a market-based pricing system for fees on Crown land timber-cutting rights. The new policy has tripled stumpage fees for producers of particleboard, veneer and oriented strandboard, while softwood lumber industries have witnessed a slight reduction in fees.

Firms in steel related industries are optimistic, especially the ones that are heavily tied to the automotive industry or involved in exporting. Higher profits are reported for primary steel producers, while metal fabricating and foundries continue to produce at near full capacity. Production expectations are in the 10-20% range above last year. This will not likely translate to more jobs, as workforce levels for some companies must decline this year because of competitive pressures. Business has picked up for industrial chemical companies and producers of synthetic resins. Plastics manufacturers have a positive outlook this year and some are planning to hire for second shifts. Chemical related industries are faced with sharp price increases of raw materials, such as ethylene and sulphur, which show no sign of slowing down. The industry's concerns about rising input costs stem from the fact that consumers continue to be adamant in resisting price hikes, implying that chemical companies will have to absorb higher costs by further squeezing tight profit margins.

Manufacturing

Automotive assembly continued strong in the fourth quarter, lifting vehicle production in 1994 to record highs. Ford Motor Co., however, had to temporarily close its new Oakville paint plant and the Windstar minivan line due to high inventories. November and December were excellent months for General Motors after a relatively slow production start of new models at its Oshawa plants. Recently, over 25,000 people lined up to apply for approximately 1,000 jobs at GM's Lumina plant in Oshawa; these are likely replacement jobs and not a result of a third shift being added as originally suspected. Chrysler Canada will be faced with the task of retooling its Windsor minivan plant and the smooth transition for the next generation of its popular minivans scheduled for this year. Ontario's automotive sector will receive \$600 million in capital investment by Toyota Motor Manufacturing Canada Inc, which recently announced its plans to double production of Corollas at its Cambridge plant. The

expansion, scheduled to begin in June, will create 1,200 new jobs when fully completed by 1997. It is generally agreed that this is going to be another good year for automotive sales in North America, although these expectations are somewhat dependant on the extent to which the industry will be affected by rising interest rates.

Automotive parts companies are producing at rates close to full capacity. As a result, significant investment activity will take place this year to increase capacity. Projected capital expenditures are likely to fall short of the 1994 figure of \$1.6 billion, which was a record. Raw material suppliers are attempting to pass on price increases of commodities like aluminum, steel and plastic resin to parts producers. Although larger firms are in a better position to resist these increases, smaller firms have been forced to absorb them on profit margins because downstream original equipment manufacturers (OEMs) refuse to accept any price increases during such competitive times. Parts suppliers with collective bargaining agreements up for renewal this year are expecting wage increases of 2-3%.

The mining equipment industry is benefitting from the mineral recovery and is extremely confident about the next twelve months. Exports have driven sales increases to a large extent, with Latin America being one of the hottest markets for mining equipment. Producers of construction equipment have noted slightly improved domestic business, although foreign demand significantly outpaces the domestic market. Capital goods suppliers of advanced manufacturing technologies (AMT) are increasing employment to meet rising demand. In some cases, firms are building up inventories to deal with potential order spikes. Similarly, demand conditions for tool, die and mould products are good but the industry is experiencing short input supply problems and rising costs for materials both from domestic and import suppliers. Industrial electrical equipment industries, which manufacture switchgear and other motor control systems, appear to be lagging behind other sectors. Traditionally, the heavy electrical equipment sector tends to lag behind the business cycle, thus the continued pace of economic growth should result in better performance in the coming year.

This year's strong Christmas selling season for retailers boosted the recovery for consumer-related industries, with the exception of clothing. Few if

any clothing manufacturers characterize current business conditions as good. Contrasting this is the relative success of consumer electronics and assemblers of home entertainment systems, which have witnessed a surge in consumer spending for their products. Ontario's furniture sector is upbeat about business prospects in the new year regardless of what impact interest rates might have. This view reflects good fourth quarter revenue results and the industry's success in the US market.

High Technology Industries

Among high tech industries, telecommunication equipment continues to be in a period of heavy restructuring and cost cutting because of worldwide overcapacity. A case in point is Northern Telecom, the predominant player in the sector, which recently announced 600 layoffs at its Bramalea plant. Sales for DMS (digital switching) equipment has levelled off somewhat, however, a replacement technology remains in the developmental stages. The industry reports sales increases in other areas and in a move to upgrade manufacturing facilities and increase productivity is engaging in new capital expenditures. Highly skilled technical staff are in high demand by telecom equipment firms as well as in the aerospace industry. In the latter industry, companies are experiencing difficulties finding qualified technicians for computer-related positions.

The US market has proven to be instrumental to the success of many environmental technology companies. With the exception of Western Canada's oil and natural gas industries, a major purchaser of environmental technologies such as hydrogen-sulphur degassing, Canadian demand for environmental technologies has lagged behind that of the US. The industry is generally optimistic because of a vibrant US economy. Industry initiatives taken to further penetrate foreign markets include partnering in highly specialized business consortia targeting specific markets, such as in the case of the wastewater sector.

Traditionally, the biopharmaceutical sector has been directly affected to a greater extent by health care reform and access to investment capital for R&D purposes than by general economic conditions. The availability of R&D investment capital has been impacted by depressed stock prices for publicly listed companies and recent biotechnology product failures in the US, which have scared off potential investors. The industry is clearly against any

federal government adjustments to current R&D tax credits. Furthermore, government initiatives to control health care costs are viewed as a long term threat to the industry because of the negative effect on potential profit margins to recoup very high development costs. Pharmaceutical giant Glaxo of Britain is planning a corporate takeover of rival Wellcome PLC, which would mean consolidation of their respective Canadian operations. Fifteen hundred jobs, the majority of which are located in Glaxo's Mississauga head office and Etobicoke manufacturing plant, may be affected; Burroughs Wellcome Inc. of Canada is based in Montreal.

Developers of computer software report very strong sales and profits and have positioned themselves well in export markets. Many software firms continue to experience a shortage of working capital, thereby limiting their marketing potential. Small businesses involved in leading edge computer technology are having difficulties raising venture capital for new projects in the early stages of development.

Services & Construction

Retailers reported solid sales results during the crucial Christmas shopping season due to much improved employment conditions and unseasonably high temperatures. For the larger department stores, sales in 1994 were the strongest in over three years. While highly vulnerable to rising interest rates and the potential for higher taxes in the upcoming federal budget, which could dampen consumer confidence, retail sales are expected to advance 5-6%. Competition remains fierce and restructuring eminent in the areas of home electronics, sporting goods, music, computer retailing and home improvement. One of the hardest hit retail groups is clothing. The most recent casualties include Toronto based Dylex and Pennington's, both of which announced major store closures.

Business services continue to grow at a steady pace on the heels of a much improved economy and through further development of foreign markets. Computer services firms are posting annual revenue increases in the neighbourhood of 15%. Advertising spending by highly competitive businesses is projected to increase substantially this year, which will benefit recession-battered advertising firms. In a major push by financial institutions to develop new areas of business, the major banks are attempting to gain access to the

lucrative car leasing market, which the industry argues would coincide with its newly granted charters to sell car insurance in Ontario. If approved, auto makers and car dealerships, already in the leasing business, could potentially lose a large market share. Ontario's fast-growing film industry, estimated at nearly \$500 million in 1994, is expected to attain record growth this year according to the Ontario Film Development Corp. The Ontario Government recently renewed its commitment to the industry by extending the Ontario Film Investment Program by \$42 million over three years. The program is designed to help fund Canadian feature films in the critical early stages of production.

Real estate brokers in the Greater Toronto area are facing tougher times due to interest rate hikes, with December home sales falling 26% from November and 20% from December '93. The residential construction sector tapered off somewhat in the last quarter of 1994, confirmed by housing starts data. The fall in new housing is partly attributed to sluggish condominium starts in the Toronto region. There is some indication that the non-residential construction sector has reached its trough and is now staging an upswing. The value of monthly non-residential building permits increased in November by 9.9% from the previous month and 13.9% from a year ago. The commercial vacancy rate in the Greater Toronto Area continued its downward trend, dropping to 13.2% from 15% last quarter, which should stimulate some activity in the industry.

Tourism in Ontario improved significantly in 1994. The lower value of the Canadian dollar has led to a significant influx of American tourists. Annual US border entries were up 6.5% in September on a year-over-year basis. Growth in tourist receipts last year are estimated at 4% and are expected to increase 4-5% in 1995. The hospitality sector in almost every region of the province is benefitting from a greater number of US and overseas tourists. Hotel occupancy rates have been rising, most notably in Southwestern Ontario and the Niagara region.

OBSERVATIONS

Price pressures from various fronts have been building, which will eventually lead to an upward trend in the inflation rate. The low value of the Canadian dollar has contributed to inflationary pressures by raising the cost of imported goods. While prices of imported consumer goods have been held in check by retail competition, Ontario's industries are being confronted by higher costs of imported capital goods and are seeking ways to pass them on. Other upward price pressures have come in the form of rising factory material costs. In November, raw material costs soared by 13.2% on an annual basis. With strong demand conditions, it is only a matter of time until producers begin passing input price increases to the consumer. Finally, the private sector is experiencing upward wage pressures, partly in response to greater corporate profits. Wage increases for manufacturing companies that settled labour contracts over the past year were upwards around 3%, while firms with collective bargaining agreements up for renewal anticipate comparable hikes. The majority of upcoming labour negotiations in the first quarter of 1995 are in the public sector including 51,000 direct provincial government employees and 75,000 nurses and hospital support staff.

The impact of rising interest rates is beginning to filter through the economy. Some sectors, such as residential construction, are already reacting to shifts in the cost of borrowing money, while consumer confidence exhibited signs of weakening after several months of consistent improvement. Any major impacts on economic activity will likely not be felt until the latter half of the year, assuming high real interest rates persist.



**NOVA SCOTIA
PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT
WINTER 1995**

OVERVIEW

News of economic recovery dominated the last quarter of 1994. GDP growth is expected to continue its upward climb from a feeble 1.1% in 1994 to 2.0% throughout 1995.

However, early into 1995, economic growth is on hold as businesses reserve major financial decisions until the federal budget. There seems to be cautious optimism providing the government creates opportunities for new enterprise without increasing taxes.

The Sepracor Pharmaceutical Company opened a new drug manufacturing plant in Windsor, N.S. However, at the same time, the reality of the Canadian Forces base closures was felt at C.F.B. Cornwallis, as the flag was lowered for the last time.



INDICATORS

Faced with the reality of trade liberalization and globalization, companies are preparing themselves to expand their long term export business. One method that is becoming more widespread is the adoption of the ISO 9000 Quality Control System. A recent ISO 9000 seminar attracted 90 representatives from the manufacturing community. Nova Scotia currently has 17 companies with ISO 9000 registration, an increase of 12 from 1993. The number of registered companies is expected to increase to more than 30 by the end of 1995.

Export shipments increased 8% over 1993. In general, from 1990 to 1994, export growth has shown an 18.2% cumulative increase up to the third quarter for each year .

Corporate Research Associates (CRA) reports in its Atlantic Omnibus Quarterly Survey that consumer confidence has levelled off over the past quarter (down 2.6 to 94.1). There are indicators of a recovery in terms of overall retail consumer

confidence; however, there are geographic contradictions to this optimism throughout the province. This is particularly true in rural communities reliant on resource-based industries such as the fisheries.

CRA also reports that most Nova Scotians are now marginally less comfortable about their job security than in August

1994, reversing a year-long trend.

Year-over-year full-time employment gains in Nova Scotia were notable, an increase of 2.8% from the 1993 figures or an additional 10,000 people employed . Seasonally adjusted unemployment figures for December were encouraging with a rate of 12.3% compared to 15.1% in December, 1993.

Manpower Temporary Services report that 30% of employers say they will add positions, 17% expect to scale down and 46% anticipate little staffing adjustments for January, February and March.

There was a 3-4% increase in container line activity for 1994, in part due to additional shipping

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services at the Port of Halifax. Hapag-Lloyd has returned to the port and formed a new service, with Neptune Orient and NYK Lines. Two additional container lines have added stops at Halifax, contributing to the estimated 250 related jobs plus a 10 to 15 % increase in cargo movement through the port annually.

There were 8,504 new business incorporations with the Registry of Joint Stock Companies during 1994, an increase of 6.8% over 1993. From January to November 1994, there were 456 business bankruptcies, a decline of 9.3% from 1993.

1994 Christmas sales seemed to be up over 1993; however, costs were also up due to increased inventories.

The use of automatic debit cards recently introduced into major grocery and retail stores is reported to be growing.

Building permits issued for the first ten months of 1994 increased 13.7% over 1993. The most significant year to date change was a three-fold increase in industrial building permits issued over 1993 figures.

Halifax office vacancy rates showed little change in December 1994 over the same month in 1993, remaining about 18.0%. The Dartmouth rate increased from 13.6% to 17.7%. Most firms are focusing on the completion of rationalization plans started in 1994 rather than on new construction in 1995.

MOOD

Peter O'Brien of the Canadian Federation of Independent Business (CFIB) sums up the current mood as "everything revolves around the federal budget". He feels that federally and provincially, finance ministers must be clear - continue with the strong, tough decisions in line with program and spending cuts needed to create opportunities for new enterprise.

The marketplace has been relatively static over the past three months, with the business climate remaining stable. Little new growth was reported aside from that in information technology.

The Atlantic Provinces Economic Council reports that the brain drain trend from Nova Scotia, in particular from the medical profession, seems to be increasing. About two-thirds of those leaving the region have some post-secondary education.

Business, education and government representatives at the annual Metro Economic Summit in November emphasized job creation, economic development and the need to shift from dependence to independence in Nova Scotia.

KEY SECTORS

Manufacturing

Michelin Tires (Canada) Ltd. are reinvesting \$24 million in their N.S. plants, countering pullout rumours and confirming their long term investment in the province.

Manufacturing shipments for the first ten months of 1994 increased 7.6% over the same period of 1993. Notable increases were in the wood industries (+28.2%), plastics (+21.0%) and fabricated metals (+28.3%).

Defence sector firms are experiencing a decline in the number of Canadian government-based contracts as a result of the Department of National Defence cutbacks. However, there are reports of some growth arising from U.S.-based business.

Technology

Software Kinetics received ISO 9003 accreditation, the third software company in Canada to obtain this standard. They have experienced significant growth since they began the Atlantic operation, increasing from 4 to 80 professionals.

Multimedia House International is exploring the possibility of setting up a training institution in Metro Halifax for multimedia.

SCL Technologies Inc. of Amherst announced a \$10.8 million expansion that will create 260 new jobs by 1996. They produce a variety of electronic components for companies like Northern Telecom and Maritime Tel & Tel.

With contracts beginning to materialize following Softworld '94 in Fredericton, New Brunswick, Halifax has been confirmed as the site for Softworld '96.

Judging by the attendance at the January Internet show (over 3,000 people), interest in the Internet in Nova Scotia continues to increase. Firms report rapid growth and expansion for Internet access in Nova Scotia. Dynatek Automation Systems Inc. recently invested in new offices in the U.K., Israel and Vancouver. Overall, businesses indicate that the information technology sector continues to move forward in areas of personnel expansion, communication and cellular phone sales and services, software sales and business procurement.

The film and television industry have been lured to Nova Scotia by its coastlines, small town settings and hospitality. Observers say that following the filming of *The Scarlet Letter* and *Dolores Claiborne* in 1994, an additional \$30 million will be pumped into the economy in 1995, more than double the 1993 amount.

Maritime Tel & Tel recently introduced TeleVillage, the first interactive TV in Nova Scotia, amidst controversy from Access Cable of Dartmouth, Nova Scotia. The two-year trial has started modestly with approximately 120 families having access to about 20 productions. Future developments will include banking, shopping, music and education-on-demand.

Biotechnology

A recent Bio-Industry Financing Forum was attended by representatives of commercial financial institutions, who presented financial assistance programs available. There remains, however, a funding gap for biotech firms in the research stage seeking patient capital of \$200,000 to \$2 million.

Services

Environmental service firms are increasingly outward-looking but cite several issues that limit their growth. Start-up companies continue to invade the local market, competing on price versus reputation, recognition and quality. The lag in enforcement activity as well as the ongoing competition from such public sector groups as Public Works Canada, Environment Canada -Labs

and academic institutions, adds to the sector limitations and the movement towards export markets.

The province has given the go ahead for casino development in Nova Scotia. Increased revenues from **Tourism** was one of the main arguments for casino development. ITT Sheraton has won the contract for a waterfront casino in Halifax and a second in rural Cape Breton. CRA reports that Nova Scotians remain opposed (52%) to casinos gambling. Opposition Parties continue to argue the projected revenues, employment figures and the social impact of casinos on Nova Scotia; however, construction has started on a temporary facility to be opened in Halifax by June 1995. A permanent facility will be completed in 1998.

Overall, the tourism industry reported a small increase year to date over the 1993 season: road and ferry visitors up 2%, recreation vehicle traffic up 9%, room sales up 2% to Oct.31 and an end of year occupancy rate of 65% (up from 64%).

The June 1995 Halifax Economic Summit of the G-7 Ministers is the main incentive behind the Tourism Industry renovations, upgrades and expansions. Capital funds of \$4.3 million will bring improvements to downtown Halifax in preparation for the Summit. Other preparations include the demolition of a partially completed airport hotel at a cost of \$1 million and the construction of a new 100 room Holiday Inn Express on Highway 102.

Further attention to Nova Scotia in 1995 will come from the Labatt Brier, March 4-12 and Rendez-Vous Canada, May 7-10.

Resource Industries

The key to survival in the fishing industry seems to be diversification and cooperation. Although diversification of shellfish companies will improve industry prospects, small-town Nova Scotians continue to feel the real changes. The reality is that the Department of Fisheries and Oceans is getting out of the freshwater business and is selling wharves, while companies are now paying for services traditionally provided by DFO.

The Atlantic Groundfish Strategy program is being swamped with applications since recent announcements of further cuts to fish quotas. There

were 8,300 Nova Scotia applications on file as of October 27, almost twice the first Ottawa forecast of 4,400 and 2,300 over the second forecast. With the March 1995 deadline for applications approaching and predictions of further quota cuts in 1995, the \$1.9 billion, five-year program may require some fine-tuning.

The Atlantic Coast Scallop Fisherman's Association are suing the federal Department of Fisheries and Oceans over scallop fishing rights in one of the richest scallop beds in the world. The small-boat scallop fishermen claim that they have the constitutional right to fish in this Bay of Fundy scallop area over companies such as National Sea Products and Clearwater Fine Foods, who were granted exclusive rights to this scallop bed in a 1986 decision. At jeopardy is the Bay of Fundy scallop stock, one of the last remaining prosperous fisheries on the East Coast.

Aquaculture research projects currently underway are hoping to improve harvest yields, both for finfish and shellfish. The Nova Scotia Aquaculture Development Committee reviewed 80 applications and 20 funding proposals during 1994. Research projects, such as the European oyster culture, have good commercial development. Other research projects are hoping to increase yields to meet local and international demand volumes.

Local fish processors have also started importing foreign raw materials, doing value-added processing and reselling the products both locally and internationally.

Lumber production reports indicate an increase of 20% in the region over the 1993 figures. Although prices and exchange rates continue to fluctuate, local producers seem comfortable with current supply levels and F.O.B mill returns. Sawmills continue to modernize and update their plants. Nova Scotia newsprint mills are working to capacity compared to 1993, when some mills feared closure. Plans are also underway for industry wide sawmill-specific quality training.

There are concerns over the Consultative Process on Forestry Issues between Canada and the U.S., which was announced on December 15, 1994. Although the Maritime Lumber Bureau has decided to participate, the proposed agendas are at issue.

The Cooperative Overseas Market Development Program (COMD) expired on December 31, 1994. Members of the Maritime Lumber Bureau have been encouraged to lobby their local MP in support of COMD.



NEWFOUNDLAND PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

1994 saw a growing dualism in the Newfoundland economy between fishery dependent rural communities and the rest of the economy. The deepening crises in the fishery continued with rural fishing dependent areas suffering growing levels of unemployment and social stress. In these areas the situation will continue to worsen over the next three years as more fishing industry workers will lose their eligibility for compensation under the TAGS program. Even higher levels of unemployment, an increase in the number on welfare rolls, slower economic activity and increased out-migration to urban areas on the island or the mainland will result.

However, other areas of the economy saw a turnaround in activity in 1994. There were production increases in resource areas such as newsprint and mining which shared in the general North American recovery. Increased activity on the Hibernia development was a major source of growth. There was also significant growth in tourism activity, residential construction and non-fishery based manufacturing. The small but dynamic high tech sector continued to be a significant source of growth. Increases in personal income in these sectors contributed to an increase in consumer spending.

Real GDP growth for 1994 was about 2.4%, compared to an expected 0.6% forecast in March 1994. It is forecast that the Province will have continued real economic growth in 1995, although at a slightly lower rate.

Recovery in the non-fishery dependent sectors of the economy resulted in increases in employment levels through 1994. However, there was also labour force growth, with the result that the unemployment rate has only improved marginally. The seasonally adjusted unemployed rate was 20.7% in December 1994, compared to 21.3% in December 1993.

The economic outlook in the near and medium-term will continue to be effected by factors such as: (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; (3) environmental problems and projected resource shortages in the newsprint industry and, (4) the financial weaknesses of the provincial government.



INDICATORS

New residential construction in November increased 2.1% over November 1993. For the period January to November the increase was 9.7% for all urban areas.

New motor vehicle sales in November 1994 were 9.2% above the levels of 1993.

Business and personal bankruptcies continue to increase to the end of November 1994 and were 758 compared to 631 in 1993, an increase of 20.1%.

To the end of November 1994 there were 1,549 new business incorporations compared to 1,706 to the end of November 1993, a decline of 10.1%.

MOOD

The St. John's Board of Trade Business Outlook Survey for 1995 shows general optimism. 65.8% of the business community expect economic conditions to remain the same in 1995 while 23.7% expect conditions to improve. 21.1% expect to increase hiring compared to 16.4% a year ago.

Corporate Research Associates in their fourth quarter survey reported that their consumer confidence index for Newfoundland deteriorated in the quarter to 94.5 after recording a substantial increase in the previous quarter. The index is down by 2.2 points from the previous quarter and down 8.1 points over the year. They report that public confidence in the Provincial Government increased again in the fourth quarter after reaching a two-year low in the second quarter.

KEY SECTORS

Manufacturing: Shipments in resource-based processing and manufacturing increased 1% to \$1.3 billion in 1994. Declines in fish products were more than offset by increased production in other areas such as newsprint, wood products and metal fabrication. The Newfoundland Manufacturers' Association estimates that growth in these areas was 7% in 1994. They estimate that total manufacturing growth in 1995 will be about 7%. A major source of growth in manufacturing in 1995 will be the return of the Come-by-Chance oil refinery to full production.

Growth took place in non-resource based manufacturing, especially in the area of high tech products. This 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 1994 was 9%.

Services

The performance of the service sector continued to be mixed in 1994. There were some positive aspects, such as in purchase of consumer durables such as automobiles and furniture. However, there continues to be weakness in areas that rely on selling goods and services to the fishery. These trends are expected to continue through 1995.

Revenues from tourism/travel increased in 1994. Non-resident activity increased by 5% and revenues by 6%. The biggest increase was in the airline tourist travel. Resident tourism travel also increased. Provincial park utilization and tourist information chalet visits increased by 19%. The dramatic increase in resident travel was due to the unusually good summer weather in 1994. Tourism activity is forecast to increase by 2% in 1995.

Resource Processing

Fishing: A preliminary estimate of the value of fish landing in Newfoundland in 1994 is \$189 million with a product export value of over \$350 million. The composition of the fishing industry in the Province has changed dramatically since imposition of the moratorium. There has been an increased importance of shellfish (lobster, shrimp, crab, clams, scallops), an increase in secondary processing, a growing trend to source foreign supplies of raw material for processing in the Province and an increase in the importance of aquaculture.

Aquaculture production at the beginning of the moratorium was valued at about \$1.5 million. In 1994 the value had risen to over \$5.0 million of which over 90% was salmon. In the medium term it is estimated production will grow to \$10 million. A recent study indicates a long term potential of up to \$200 million. There are only a limited number of potential sites with acceptable water quality left in other parts of eastern North America and as a result there is a growing interest in Newfoundland which has a number of sites left, especially on the southern coast.

However, even these positive developments are overshadowed by the continued crises in the groundfishery. DFO's fall 1994 groundfish survey indicates that the northern cod stock biomass has decreased by 99% since 1990. The biomass decreased from 15,000 tonnes to 3,000 tonnes in the past year. Scientists estimate that it would take at least another 15 years for the stock to rebuild to where a commercial fishery could again be considered. At this time the stock is commercially extinct and some scientists claim it is on the verge of biological extinction.

To date there has been about \$1 billion spent under the Northern Cod Adjustment and Recovery Program (NCARP) and TAGS on compensation

and adjustment initiatives, but very few of the 20,000 effected fishery workers have opted to leave the industry. This along with the continued decline in groundfish stocks points to a longer and deeper crises in the industry and in the whole rural economy of the province.

Newsprint: Conditions in the newsprint industry improved in 1994. Transaction prices and demand increased in the US, Europe, South America and Asia. The mills improved their operating efficiency and all three mills operated at full capacity utilization. The value of newsprint shipments grew from \$400 million in 1993 to about \$450 million in 1994. It is estimated that the value of shipments will reach \$520 million in 1995.

Minerals: The total value of mineral shipments in 1994 is estimated at \$826 million compared to \$728 million in 1993. Shipments in 1995 are forecast to reach \$950 million. The value of iron ore shipments are forecast to increase by 4% in 1995 in response to improved market conditions.

Agriculture: Total farm cash receipts for 1994 were \$64 million, up by \$2 million from 1993. After further processing the agrifoods industry generates over \$300 million in sales. It is estimated that farm cash receipts will be about \$67 million in 1995.

Offshore oil: As of the end of 1994 construction of the Hibernia production system was 60% completed. In November the gravity base Structure was towed from the Bull Arm site to Mosquito Cove to be joined with the topside modules in 1995. Total expenditures on the project to the end of November were \$2.95 billion, of which \$2.05 (70%) was spent in Canada. Expenditure in Newfoundland totalled \$1.2 billion. Total employment as of December 31, 1994 was 7,514 of which 4,827 were in Newfoundland.

High Technology

The high tech sector is the beneficiary of growth associated with technological opportunities originally afforded by Hibernia development. A survey by Seabright Corporation Ltd indicates that in 1994 this sector comprised about 100 firms with sales of \$100 million. This sector is made up of information technology (60%), oceans/fisheries (15%), environmental (10%), Biotech/medical (10%) and aerospace/defence (5%). There will be continued growth in areas such as communications, directional drilling, materials engineering and oceanographic instrumentation over the next few years.

OBSERVATIONS

Provincial Government: In December 1994 the Province passed its business investment legislation designed to promote Economic Diversification and Growth Enterprises (EDGE). Effective January 1, 1995 eligible EDGE Corporations are exempt from all provincial corporate tax, payroll tax and retail sales tax for 10 years followed by a five-year phase in period for these taxes. The remission period can be extended for a further five-year period if the business is established in an area with an unemployment rate higher than the provincial average. The legislation also permits municipalities to grant similar concessions on business and property taxes. To date two applications have been approved and ten other applications are under review.

In its 1994-95 budget the Newfoundland Government forecast a \$25 million deficit on current account and a total budget deficit on capital and current account of \$197 million. However, it has announced that it will now have a balanced current account for this fiscal year. The total budget deficit is expected to come in at about \$150 million. The Province is targeting for a fully balanced budget within the next three years.



NEW BRUNSWICK PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

New Brunswick's economy continues to enjoy the benefits of strong export performance from its major resource sectors of forest products, the shell fishery, mining and tourism. Combined with the exceptional job creation efforts of the McKenna administration, particularly in the field of telemarketing/call centres, the economy has experienced solid growth in 1994 and is poised to achieve similar results in 1995.

While the falling Canadian dollar has been a boon to exporters, the current and forecast high interest rates have dampened investment. Indeed, the province's successful exporting firms are perhaps the best hope for new business investment activity.

The prospect for increased consumer spending is predictably poor, given the high interest rates, no or slow gains in wages, rising import prices, abiding concerns for job security and a generally shared view that the forthcoming federal budget will be (necessarily) tough on everyone.

INDICATORS

The strong export performance is evident in the year-over-year increases recorded for manufacturing shipments ($\uparrow 9.0\%$) and pulpwood production ($\uparrow 15.1\%$) over the January-November period, as well as in exports ($\uparrow 17.4\%$) and sawmill production ($\uparrow 5.2\%$) from January-October, 1994.

The January-November retail trade figures attest to a decline in consumer spending of 0.3% in 1994

over the same period in 1993. Similarly, a decline of 1.3% was experienced in 1994 in the number of new motor vehicles purchased.

On the housing front, CMHC's senior analyst indicated that the province's multiple unit construction numbers were down 43% from 1993 while single family units were down slightly by 1.5%. There was even a small decline in resale market activity as mortgage rates rose during the year.



The hottest urban market continues to be Moncton which recorded an increase in single family construction of some 27%. Saint John's market declined in the face of uncertainty with respect to the future of the 3500 employee Saint John Shipyard, the 400 employee Lantic sugar refinery (implications of US-imposed sugar tariffs) as well as a persistent strike at the Irving oil refinery.

The falling Canadian dollar has significantly reduced the incidence of cross-border shopping. In November 1991, when the Canadian dollar was at 88 cents (US), 794,464 Canadians were recorded at the border as re-entering New Brunswick. In November 1994, with the dollar at 73 cents (US) 424,350 Canadians re-entered the country at New Brunswick border points.

Unfortunately, the falling dollar will have an adverse impact on the approximately 20% of the province's debt which is in foreign hands and make it tougher still for the government to achieve a balanced budget in 1995-96. This, despite the province's excellent progress towards eliminating

its operating deficit, due in large measure to a relatively early recognition (1989-90) of a looming fiscal disaster, and the focussed efforts of the Premier in luring "new economy" industries to New Brunswick.

In December 1994, seasonally-adjusted figures indicate that the labour force had risen 4.2% and the number of employed 7.6% over the same month in 1993, while the number of unemployed declined 10%. The province's seasonally adjusted unemployment rate declined from 13.4% in January, 1994 to 13.1% in January, 1995.

Business bankruptcies were up slightly on a year-over-year basis, January-November, by 2.7%. Of these, retail trade industries accounted for almost a quarter (24%), followed by construction industries (16%) and transportation and storage industries (9%). Manufacturing industry bankruptcies amounted to 5% of total business bankruptcies. On the other hand, new (for-profit) incorporations from April-November 1994, were up 16.4% over the same period in 1993.

The Saint John Port Corporation proclaimed 1994 a record year with shipped volumes up 8% over 1993. Increased petroleum and potash shipments largely accounted for the significant volume change. Cruise ship traffic which brought 5,000 passengers to Saint John in 1992, 12,000 in 1993 and 23,600 in 1994 is estimated to have had an economic impact of \$1 million on the city.

Preliminary figures indicate that 1994 has been a banner year for tourism in the province. Revenues are estimated to have reached an all time high of \$676 million, representing an increase of 10% over 1993.

MOOD

Corporate Research Associates Inc., in their Omnibus 1994, fourth quarter survey, reported that consumer confidence, while declining slightly from a five-year recorded high in the third quarter of 1994, still remains the highest of all the Atlantic provinces. Premier McKenna's strong results in job creation and fiscal management are, in no small measure, responsible for the higher consumer confidence index. Support for the general direction of the provincial government and for the leadership of Premier McKenna is also borne out in other survey results. More than two in three

New Brunswickers "are now very (14%) or somewhat (55%) satisfied with the government's overall performance".

Officials in local banks report that mortgage sales and consumer loans in the Moncton area have been flat over the past four months. A couple of factors are cited as reasons for this trend. First, many consumers have simply postponed their purchases due to higher interest rates. Secondly, there is considerable uncertainty over the federal budget, leading numerous public servants who hold many of the better paying jobs, to be very cautious.

Bank officials add that consumers expect the high rates to peak and then to decline by summer. In addition to house purchases, high rates are having a significant impact on auto sales. In fact, bank officials believe that "consumers pay more attention to affordable monthly payments than to the price of the automobile". Accordingly, a small upward shift can mean the difference between selling a car and not selling a car. The first quarter of 1995 typically will see nothing to reverse this trend as many consumers are paying off Christmas debts.

The majority of business investment activity during 1995 is expected from successful exporters. Greater Moncton continues to be the hottest area for economic activity in the province. Several large projects have been announced, including a new major mall development, planned expansions of existing malls, renovations and additional convention space to the province's largest hotel and a new city hall complex. These are in addition to the recent new job creation announcements made by UPS (500 jobs) and Canadian Pacific's Global Reservations System (75 jobs).

KEY SECTORS

Manufacturing: Output continues to rise from the province's manufacturing industries -most noticeably from the pulp&paper, mining and food processing firms. Metalworking companies are also reaping the benefits of renewed resource-based production as well as activity associated with the Fixed Crossing project. The New Brunswick division of the Canadian Manufacturers Association (CMA) is currently involved in an information program "to inform politicians of the negative impact of raising corporate taxes" says Vice-President, Mr. Gerald Cluney. His membership is worried that the budget might be too harsh thus

dampening both output and investment in what has been an improving provincial economy.

Plastics firms in the region have consistently disparaged over the lack of skilled technicians for their industry. A proposal for a training facility to address this situation is expected to come forward during the first quarter of 1995.

Services: In cooperation with the **consulting engineers** of New Brunswick, a survey of its association has been completed. The survey will assist Industry Canada to prepare a strategic business plan for the future competitiveness of this sector.

A similar exercise is underway with the **Commercial Education and Training** sector to build a profile of the industry - its components, current status, external competitive environment, issues, strengths and weaknesses, market opportunities and recommendations for the roles of industry and government in addressing the sector. The survey, conducted on an Atlantic regional basis, will provide an excellent basis for the preparation of a strategy for the sector.

The 38-member New Brunswick Training Industry Inc. (comprised mostly of private sector firms and some provincial corporations like NB Power and NBTel as well as some community colleges) has been formed to promote and market the province's products, services and capabilities and to encourage and facilitate business networks.

The **construction** sector is counting on private sector projects "to simply remain in business" as government spending on capital projects has dramatically declined. The Fixed Crossing project has been good at creating jobs in this sector (some 2,000 jobs are expected to be operational by the summer of 1995) but very few provincial contractors are directly involved. The road construction contractors can look forward to another steady year as the province has announced 1995 spending plans of \$209 million on the Trans Canada Highway project.

The record performance of the province's **tourism** industry in 1994 resulted from numerous factors but it is generally felt that the very focussed marketing strategy of the province was a main contributor to the successful year. Québec visitation to New Brunswick increased by 16% in

1994, followed by Ontario at 14% and a 4% increase in visitation from other Atlantic Provinces. Although visitation from the United States did not reach the levels anticipated despite the low Canadian dollar and the strong marketing efforts of the Atlantic Provinces, those who came to New Brunswick in 1994 stayed longer (room sales increased by 3%).

The industry is very optimistic about 1995. The continuing low value of the Canadian dollar, the marketing strategies of the province and of the Atlantic Canada Tourism Partnership, the creation of the Canadian Tourism Commission, and additional funding for tourism promotion are all contributing to high industry expectations for continued growth in 1995.

Resource Industries: With the recovery in Europe, and signs of renewed growth in Japan, competition from imports has lessened in the **pulp&paper** sector thus spelling the resurgence of another cyclical upswing for the industry. Virtually all plants are running at full capacity and enjoying prices which have been increasing at the most rapid rate the industry has seen. Due to these favourable conditions, the Nackawic mill in this province is presently considering an investment which could double or triple their current output of hardwood pulp.

The \$400 million ALCELL project planned for the village of Atholville, in northeastern New Brunswick, is faced with resolving an environmental challenge from the Restigouche Micmac First Nations Government before proceeding with a planned spring start.

A comprehensive Atlantic Region strategic plan for this sector has been set into motion. Current projects under consideration include a regional de-inking facility, an ethanol plant feasibility study and studies in conjunction with the major by-products of the ALCELL process - lignin, furfural and acetic acid.

The President of New Brunswick's **Wood Products** Group claims that "in their 1995-96 capital spending plans, virtually every major primary sawmill in New Brunswick shows an intent to diversify into value-added products". This has been a consistent urging of Industry Canada sector officers within all resource-based industries. With excellent recent returns to lumber producers, the

industry may finally be prepared to follow through on these intentions.

So great is the demand for wood products, that the prices of under-utilized species have increased as processing plants convert to other sources of non-traditional wood in their manufacturing process. Even wood waste is in short supply as mills are becoming more efficient, others have added kiln dryers (heated by hog fuel or waste wood), while still others are looking at converting wood residues to value-added products.

High Technology: Of an estimated 40 electronic/electrical firms in the province, roughly 13 firms, employing 450 people and sales in excess of \$65 million are major exporters. A number of these exporting companies are experiencing sales growth of 30% per year. When Com Dev Atlantic established in Moncton in 1989, they purchased all of their supplies out-of-province. Today, roughly 95% of their purchases are made within the Atlantic Provinces, the majority of which are from New Brunswick. The company advises they are pursuing markets in the non-space field including the manufacturing of telecommunication products and mass production of high-end miniaturized surface-mount circuit boards for other clients.

A feasibility study for the manufacture of plastic enclosures, circuit boards, circuit board stuffing and surface-mount circuit production is proposed. The unit costs of these components must be lowered if NB firms are to remain competitive in global markets.

New Brunswick has relied successfully on **information technology** as a basis for diversifying and growing its economy. An Information Technology Alliance has recently been formed in the province. The Alliance, consisting of some 60 founding members representing a cross-section of producers and suppliers of information technology products and services, is intent on being industry driven. The initial primary focus for the Alliance is to facilitate the global marketing and competitiveness of the New Brunswick information technology industry.

OBSERVATIONS

"I am sure their Ontario counterparts have a much better understanding of the manufacturing operation" says a small New Brunswick elevator manufacturer. Referring to failed attempts to obtain adequate financing for his operation from local banks, despite a good track record and advance orders from the US, he has claimed that the local and even regional banking operations "are staffed with managers who lack experience in manufacturing operations".

Informed sources claim that although the regional air service company, Air Atlantic, has managed to stave off financial insolvency for the short term, the medium- to long-term outlook is not bright. First, the market in Atlantic Canada may be too small to sustain two regional airlines. Overall real income in the Region has declined while federal and provincial government travel has been reduced as a result of budget constraints, thus placing the air mode into a 'cost/price squeeze'. Secondly, if there is economic room for only one airline in Atlantic Canada, then government may have to re-examine its domestic competition policy for that mode."

On the prospect of encouraging more Americans to shop on the Canadian side of the border: "It's incredible, the ignorance the people of Houlton and surrounding area have of Woodstock and what's available here," said Curtis Brown, President of the Woodstock Chamber of Commerce. "They don't even know what a Canadian Tire store is. It's up to us to educate them about what's available."

In March 1992, an all-time high of 59,000 people received UI benefits. According to recent press articles, in November 1994, a 12-year low was struck when 49,520 were reported as UI beneficiaries. While this figure appears to represent an improvement, in actual fact the basis for deriving the figure has changed this year as a result of the longer qualifying term for benefits. Thus, perhaps the best measure of progress in job creation is the employment-to-population ratio which has, in fact, improved modestly.



MANITOBA PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT WINTER 1995

OVERVIEW

Manitoba's sluggish economy is breaking out of the doldrums. In its latest analysis, the Conference Board of Canada predicts that growth in Manitoba will outpace the national average due primarily to an exceptional year in agriculture.

Similarly, the banks are forecasting growth in Manitoba to be in the 3.5% - 3.8% range on the strength of rising commodity prices, a banner year in agriculture, continued strong business investment, and growing manufacturing shipments to the US.

Manitoba Finance Minister Eric Stefanson indicated the government is on target with a deficit projection of \$296M, but with an impending spring election, some believe the government may attempt to balance the budget given record gambling revenues and the recent increase in federal transfers.

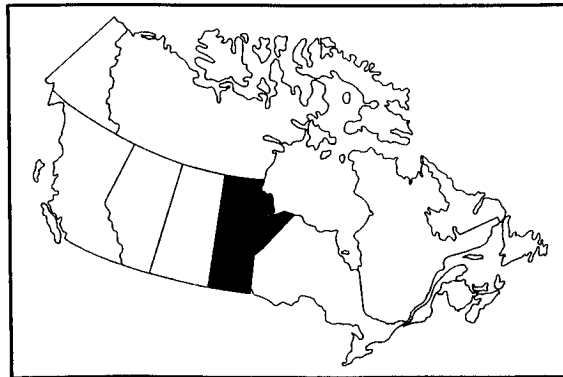
INDICATORS

Fourth quarter retail sales were up by 4.3% over the same period in 1993. Though lower than the national average (6.6%), the figures reflect the first real positive upswing in spending by Manitoba consumers since well before the recession.

Fourth quarter Manitoba insolvency statistics show 43 business and 576 consumer bankruptcies, a level basically unchanged from the same period in 1993. Overall in 1994, there were 2,477 insolvencies, down 14.2% from 1993. Of these insolvencies, only 225 (9.1%) were business-related.

In 1994, Manitoba recorded 44,168 active incorporations, up 1.4% from 1993 and 3.9% from 1990. In fiscal 1993-94, new registered incorporations were up 18.3% from 92-93.

On a provincial basis, Manitoba in November had the second highest participation rate (66.8%) and the third lowest unemployment rate (8.1%). Year-over-year statistics show a 14.6% drop in unemployment and a 1.4% increase in employment.



Since September, employment has increased by 10,000, the participation rate has increased from 66.3% to 66.8% and the unemployment rate has declined from 9.1% to 8.1%.

On an industry basis, in the fourth quarter, main employment gains were noted in the service,

transportation, primary and manufacturing sectors. Major decreases were noted in public administration and finance.

Exports in 1994 were up 33% over 1993. Although much of the increase can be accounted for by the growth in commodity exports (grains, nickel and copper), exports also increased in machinery industries (farm and transportation equipment), fabricated metal products, furniture and wood industries.

MOOD

Although the Manitoba business community has demonstrated a very positive outlook over the last 12 months, Manitoba consumers have only recently showed signs of "finally starting to come alive". A

recent poll indicates that consumers are losing their persistent pessimism and are becoming more buoyant about their personal finances.

Many retailers, particularly in the rural areas, reported that Christmas/94 sales ranked among the best in recent years. Retailers were expecting sales to be at least 8% higher than last Christmas.

A dark cloud on the horizon reflects concern over rapidly rising interest rates, Canada's growing debt and Finance Minister Martin's suggestion that higher taxes may be in the offing to combat the federal deficit.

Conversely, the falling dollar has "US buyers lining up at the door for Canadian products." Moreover, for the first time in years, a reverse flow of cross border shoppers is clearly evident. To date, Canadian cross border trips are down 17% over 1993.

KEY SECTORS

Manufacturing

Strong demand in the US has pushed manufacturing shipments up 11.2% in 1994. As a result, by the fourth quarter, manufacturing employment has grown 35.4% since the recession. According to Statistics Canada, manufacturing jobs are at their highest level in 13 years.

Agriculture

A record canola crop, a growing worldwide demand for canola, and a high quality harvest have powered the agriculture sector and fuelled growth in the province. The timing of the record canola crop was fortuitous: crops in China and Australia were devastated by drought, the consumption of canola oil in China is rising dramatically, Japanese and US demand remains high, and European and Mexican markets are beginning to open up to canola.

High prices and yields are boosting farm incomes past the \$18 billion mark. Foreclosures have declined, farm equipment sales are booming and the cost of support programs declined 39%.

Pharmaceutical Industry

The pharmaceutical industry continues to experience strong growth as evidenced by a recent

survey of leading Manitoba pharmaceutical firms.

Indicator	1992	1994	Change
No. of Firms	11	15	
Revenue (\$M)	91.0	188.0	107%
Value of Exports (\$M)	47.4	97.9	106%
Investments (\$M)	-	187.8	
Employment	490	706	44.1%

Although firms are embarking on plant and staffing expansion plans over the next 2-3 years, a priority concern of CEOs is developing a skilled labour force. There is fear that current workforce skills shortages will be exacerbated with the opening of the new Virology Lab in 1997 which will greatly increase the demand (and price) for technically trained workers. Firms also expressed concern over regulatory burden and timeliness of product and facility approval for marketing of products.

Tourism

Manitoba continues to lead the country in terms of growth of international visitors. To date, US visitors have increased by 10.3% and international visitors have grown by 32.2%, compared to 4.3% and 10.6% respectively for the nation. Accommodation occupancy rates are also up by 4.6% over 1993.

Based on the continued strength of collective marketing efforts, a low Canadian dollar and the strong economic growth in the north-central US, expectations are high that these trends will continue.

Furniture and Secondary Wood Manufacturing

Following a very strong 1994, firms are entering 1995 with strong order books. In fact, a lack of capacity is forcing some firms to turn away orders. Growth is completely export-based; a flat Canadian market motivated firms to diversify markets to include the US and overseas.

Firms are investing heavily in new capital equipment and knowledge (i.e. training). Executives report that the main hinderance is the shortage of skilled technical workers, in particular,

wood engineers and technicians capable of effectively using new manufacturing technologies. Companies are attempting to recruit wood professionals from Europe, but are being hindered by immigration policies. Firms are looking to the National Education Initiative as a long-term solution.

Northern Manitoba

To a large degree, the state of the northern Manitoba economy is determined by the fortunes of the mineral sector. Recently, the fortunes of the north have been improving as evidenced by the record amount of mineral exploration in 1994 and by the fact that Inco Limited, unlike most years, kept its operations running throughout the holiday season.

Growing world-wide interest in eco-tourism is having a positive impact on northern communities such as Churchill. Emerging markets for northern eco-tours include Japan and Europe.

Churchill is also waiting on the outcome of a federal-provincial task force charged with examining the viability of the community with respect to its seaport, rail line and spaceport function. The task force is recommending to Minister Axworthy that governments commit to upgrading and maintaining rail and port facilities. The Canada Spaceport initiative is closely linked to facilities improvements. Akjuit Aerospace Inc. is proposing to invest \$250M in Churchill to develop a rocket facility for the launch of low trajectory satellites.

OBSERVATIONS

A Positive Sign of the Times

Jonas Sammons, general manager of the Manitoba Division of the Canadian Manufacturers' Association, commenting on the local manufacturing sector: "Our guys are very busy. You know they're busy because you can't get them out to meetings."

Biceps of Steel

A Winnipeg Free Press editorial stated that Manitoba's one-armed bandits are developing "biceps of steel" with the announcement that gambling revenues are up a staggering 43%. With revenues of \$210M last year, gambling has become the province's fifth-largest source of revenue.



BRITISH COLUMBIA
PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT
WINTER 1995

OVERVIEW

The BC economy continues to perform well. Economic growth was in the 4% range for 1994 and is forecast at 3% to 3.5% for 1995. Growth slowed in the fourth quarter 1994 due to rising interest rates, slowing housing starts and home sales. Retail sales are up 12% from last year, but Christmas sales were not as good as expected (sales fell 2.4% in November). Manufacturing shipments are strong, up 14.5% in November 1994 over November 1993. Housing starts increased in November 1994 to a seasonally adjusted annual rate of 40,000, the highest level since February 1994. Improvement was due mainly to increased construction of new rental apartments in Vancouver.



Business leaders indicate the BC economy compares favourably to the rest of Canada, but relative to the Asia Pacific, the economy is slow.

Companies are worried about increasingly powerful and demanding unions and the potential negative impact on the economy. *"Union demands are out of whack given international competition and the business climate in the rest of the country."*

Retailers (particularly in resource regions) are cautious, keeping a very close eye on inventories. The same caution exists with Canadian clothing factories for example, where "stocks have fallen to a minimum and there is virtually no warehousing." This situation is causing serious delays on orders from Canadian factories--not the case from US based suppliers.

Population growth is now outpacing employment growth, a marked change from mid-year. Labour force participation has dropped by 1.5 percentage points from December 1993. Employment gains have been much stronger for women than men (5.2% versus 0.8%) and have been strongest for those aged 45 to 64.

Exporters are happy about the weak Canadian dollar, but continue to complain about the difficulty of importing (usually small amounts) of sub-assembly materials into Canada, even though the final product is for export.

Minimum wage in BC is set to rise--from \$6.00/hr to \$6.50/hr on March 1/95 and further to \$7.00/hr on October 1/95.

INDICATORS

BC exports totalled \$2.1B in November, a 32% increase over November 1993. The province saw large increases in forest products (24.8%), energy products (83.4%), automotive products (69.1%) and industrial goods (48.2%). On a year-to-date basis, exports were 19.3% higher than in 1993.

Business bankruptcies were down 4.9% last year (year-to-date as at end November); consumer bankruptcies were up by almost the same amount--4.5%. Incorporations by BC companies were up 14.4%.

Manufacturing shipments recorded strong gains--the highest growth rate last year was in the paper and allied shipments, up 44%. Other strong performers include the transportation equipment (33.9%), machinery (28.3%), chemicals (27%),

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misc. manufacturing (23%) and metal fabricating (21%). Wood products shipments were up 6.3% in November 1994.

Cargo shipments through Vancouver International Airport increased by 17.5% in first quarter 1994, relative to the same period in 1993. A record 591,160 cruise ship passengers sailed through the port of Vancouver in 1994, injecting some \$130M to the local economy.

Population growth was 2.6% between the third quarters 1993 and 1994--the highest growth rate of any province. Growth is due largely to record high levels of international migration (up 10.3% from third quarter 1993) combined with net migration from the rest of Canada (14,571 people in third quarter 1994). Third quarter net migration from the rest of Canada, although still strong, is down slightly (6%) relative to the same period in 1993.

BC now has 56,000 more managers and professionals than a year ago, and 39,000 more service workers, but fewer people in clerical, sales, primary and handling occupations.

A Whatcom County (Washington State) agency reports it has recruited 5,000 new jobs to the county directly from the Lower Mainland over the last five years.

Median family income in BC has been declining since 1991. Median family income was \$49,119 in 1993, down from \$50,252 in 1992, but above the national average of \$47,069.

The BC government estimates the size of the underground economy in BC at 4.7% of GDP, markedly down from their previous estimates ranging from 15-25% of GDP.

Financial consultants report clients are not investing, because they are worried about tax increases. Those who are investing are increasingly doing so in offshore vehicles or taking their money to tax havens such as Grand Caymen.

Unemployment (seasonally adjusted) was 8.4% in December 1994, down 0.6% from the previous month and the lowest level since July 1990. The Thompson-Lillooet region (centred around Kamloops) has the only unemployment rate above 10% in the province.

MOOD

A recent Vancouver Board of Trade poll prioritized top issues for BC residents as: jobs/economy #1; the deficit #2; and, environment/forests as #3.

Some business leaders say the biggest problem for them in BC is the political climate: a provincial government characterized as arrogant and with little understanding of business. *"They say that business drives the economy but they don't really believe it."*

Retailers say their key concern is the Canadian deficit/debt and the clear links to higher interest rates. Rising interest rates are particularly damaging since retailers operate off lines of credit and rates increase is coinciding with the slowest part of their season. Forecast is for increased business failures and a general retrenchment in the 'entrepreneurial' spirit of business.

KEY SECTORS

Resources

Forest Products: Excellent economic business conditions and general optimism reported in the sector. Lumber prices are at a level where even with stumpage prices at new highs, companies are profitable. Pulp and paper prices are also at high levels. The predicted decline in US housing starts for '95 will impact on exports.

Some labour unrest in the pulp and paper sector--Fletcher Challenge (which produces 8% of Canadian paper) still has three mills on strike (since December 23) over trades flexibility issues. In Port Alberni, the general public appears to be supporting MacMillan Bloedel rather than the trades unions over the company's use of replacement workers.

The provincial governments' position of discouraging concentration of ownership in the forest sector (i.e., limiting major company expansion or take-overs by controlling the land base) is seen as a major impediment to improving global competitiveness of BC industries (e.g., Canfor-Slocan takeover).

Secondary wood firms have recently been subject to increased unionization. A number of these

companies are reported to be seriously considering moving to the US.

Fisheries: Good stock conditions prevail--1995 quotas are the same as previous year. Salmon markets are coming back (from overabundance), sockeye prices were up 100% in 1994. There is some concern that aboriginal and sport fishing is taking too much of the fish stock and may result in an "east coast type situation".

Major fish processors say they are still losing money, primarily because fish prices are too high.

JS McMillan and Co-op have merged to form one company, McMillan. The new plant operates at higher production than the two previous plants combined, with 10-15% fewer workers.

There is continued frustration over government regulation--"*honest fishermen wonder why they should obey regulations when it seems there's little chance of getting caught due to slack enforcement and the dishonest people are bringing home more dollars*".

Manufacturing: Forest equipment manufacturers report continued strong activity and full orders. They anticipate two more years of steady business. Some concerns voiced over the new Workers Compensation Board regulations for ergonomic furniture and the costs it will impose on employers. Manufacturers also report continued difficulty in hiring skilled labour.

The aerospace industry is expecting growth in 1995-96, after several slow years. Companies enthusiastic about growth prospects are implementing training for workers and undertaking some plant and equipment investments. The trend is to focus on sub-assembly and system integration as the main business rather than being only a parts supplier; firms seeking closer relationships with aircraft manufacturers (e.g., assisting in design and development).

Hitech/Communications: Good business conditions overall; business leaders report cautious optimism about the new year; companies report increased project approvals.

The telecom sector is frustrated by the apparent absence of "real programs" from the provincial government in expanding telecommunications services outside major metro areas, and linking BC

manufacturers with contract opportunities to meet the needs of government and crown corporations. There is no coordinated policy across provincial agencies.

Software developers continue to find difficulty sourcing senior marketing and management talent from within the country. The best sources are offshore and salaries are in the neighbourhood of \$175,000US. At this salary level, one company claims the personal tax differential between the US and Canada is in excess of \$50,000, providing a strong inducement for Canadian companies to relocate at least part of the company to Washington, Oregon or other parts of the US. Companies argue it is as important to encourage free trade flows of marketing/management expertise as it is to encourage technology inflows.

The biotech sector is, for the first time seeing enough growth in firms (combined with shortages of skilled people) to give rise to keen competition between firms for personnel. There is some concern that the Canadian currency weakness will inhibit the ability of these firms to source personnel outside the country, hence competition will grow, and will be inflationary. The industry feels it is still being dogged by over regulation (federal and provincial), as well as environmentalists who do not understand biotechnology.

SERVICES

Tourism: Whistler reports its most successful season ever, primarily due to early season conditions and the benefits of money spent on growth markets. Other ski areas are also reporting a banner season. The weaker Canadian dollar is also keeping skiers in Canada. The numbers of skiers are up an estimated 20% over the Christmas period; Apex (Penticton) is up 110% over the same period last year, despite its early season access problems.

Environmental: In general, the industry is experiencing more niches for specialist groups and firms with low overhead; profit margins are decreasing for companies doing a lot of routine work. Large engineering firms seem to be acquiring environmental firms with the aim of bringing more of the environmental market in-house. There is an industry-wide shortage of environmental scientists with managerial skills and consulting experience. This shortage is limiting

the amount of work firms can take on, as well as inflating salaries of mid- to upper-level managers.

There is frustration with delays and inaction on contaminated site cleanups: *"Canada's approach to the management of contaminated soils and sediments is not technically-based. Decisions are based on arbitrary criteria rather than on examining environmental risk."* Another concern is the number of disputes between relevant agencies on levels of environmental protection--consultants are often asked to act as mediators between agencies to resolve conflicts.

On regulatory issues, there is concern that government agencies are not staffed to handle the workload resulting from new provincial regulations (e.g. Bill 26 - contaminated sites legislation, Bill 29 - environmental assessment legislation). Companies are worried that meeting time and document review time will increase dramatically. More generally, rumours of federal cutbacks and possible shifts in responsibilities are increasing the atmosphere of uncertainty with respect to environmental decision making.

OBSERVATIONS

In general, the mood is fractured between big business and the provincial government. Industry feels that intervention of government on a number of issues does not bode well for "free market issues". Friction will continue to be evident in the coming months.

Taxation levels remain a key concern to business, particularly in terms of their impact on the ability of companies to source personnel from outside the country. *"My single greatest challenge is having 10% of my highly skilled workforce quietly leave and move across the Border each year. We can't retain top people because of high tax rates."* (High tech company).

There is clear evidence of support for strong government action on the deficit and debt front. One source reported he *"would like to see Premier Klein come here and help us sort out our mess."*



OCT 25 1995

Industry Canada
PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT
ALBERTA
WINTER 1995

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OVERVIEW

Alberta was one of the fastest growing economies in Canada over the past two years. Steady growth in business investment, exports and manufacturing, as well as strong energy, forestry and agriculture sectors benefitted the province. Provincial GDP growth for 1994 is expected by the Conference Board of Canada to be around 4%, followed by slower expansion in 1995 (3%). By comparison, the Board is forecasting a national growth rate of 3.4% for 1994 and about 3% in 1995.

Labour market conditions improved in Alberta in 1994. Employment grew 3.3%, ending the year 42,000 higher than in 1993. Manufacturing alone increased 21%, gaining 19,000 jobs. The participation rate, at 72.1%, was well above the national rate of 64.9%. The unemployment rate decreased 1.4 percentage points to 7.6%.



The Second Quarter Alberta Budget Update for fiscal 1994-95 shows that the government's four-year balanced budget plan remains on track. Due primarily to windfall energy revenues, the budgetary deficit is in fact already close to elimination.

INDICATORS

Alberta's seasonally adjusted unemployment rate remains second lowest in Canada, at 7.6% in December 1994. By comparison, the rate for Canada was 9.6%.

Exports from January to October 1994 totalled \$18.7 billion, an increase of 14.6% over the same period in 1993.

Business incorporations increased 16.2% during the first three quarters of 1994 compared with 1993.

There were 1,490 business bankruptcies from January to November, an increase of 8.8% over 1993. The majority were in construction and retail.

Consumer bankruptcies increased 11.3%.

During the first ten months of 1994, retail sales totalled \$18.2 billion, an increase of 7.7% from the same period in 1993.

Alberta urban dwelling starts for January to November decreased by 8% from a year earlier. The value of building permits for the first ten

months of 1994 rose 0.5%.

Oil production rose 3.2% in the first nine months of 1994 over the same period in 1993; natural gas production increased 7.8%. In August 1994, 265 rigs, on average, were drilling in Alberta, a 57.7% increase over the same month last year.

MOOD

The mood in Alberta's business community is still upbeat, though more caution is emerging. The oilpatch has had a near record year of drilling activity and, aside from short term concern with falling spot market prices for natural gas and some market indications of waning investor confidence in smaller oil and gas companies, the energy industry looks forward to another good year in 1995.

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Agriculture is also healthy on both the livestock and crop side, with canola especially strong. Forest products are seeing healthy profits in solid woods and panelboard and, more recently, in pulp and paper products. Tourism is also buoyant and is poised to benefit from an influx of visitors, partly due to the low Canadian dollar. Exports of commodities, often priced in US dollars, are also benefitting from current exchange rates. Business confidence remains strong, particularly in Calgary and other economic hot spots affected by the strong performance of the energy and other resource industries.

Consumer confidence is more reticent and remains mixed. Rising interest rates, with consequent mortgage and consumer credit implications, is one factor. Another is concern and insecurity about jobs, wage rollbacks and government restructuring. Positive economic indicators of job growth, new business formation, even increased retail sales are cold comfort to cautious and concerned consumers. This is especially true of Edmonton where the full impact of government cutbacks continues to shake down through the system and, compounded by some private sector company exits, is reflected in a stagnant housing market. Calgary, by contrast is seeing steady new housing development and other evidence that consumer confidence is much stronger in that city. The mood in much of rural Alberta also appears more upbeat, especially where the positive effects of resource development are most keenly felt.

KEY SECTORS

Resource Industries

The Alberta oil and gas sector is expected to continue strong in 1995, although activity will not be as dynamic as in the previous year. 1994 saw land sales exceed \$1 billion and near record drilling activity just short of the 1985 record of 12,200. This hectic activity was due mainly to strong demand for natural gas. A decrease in activity, mainly by smaller companies, is forecast for 1995 by the Canadian Association of Petroleum Producers. This is mainly due to softer gas prices, lower cash flows and slower equity markets especially for smaller companies.

Rigs are booked until Spring break-up in April but the strength of second half drilling activity may depend on a quick rebound in gas prices. Though

the long-term outlook for natural gas is sound, a warm winter and rapidly falling spot market prices are cause for immediate concern. Some producers have begun to shut in or store part of gas producing capacity. The Canadian Association of Oilwell Drilling Contractors (CAODC) forecasts high drilling and service rig activity, predicting a shift to more deep gas exploration in the foothills and more horizontal drilling for oil. CAODC's forecast assumes \$16 to \$18 oil and \$1.75/thousand cubic feet for gas sold outside Alberta.

The agriculture sector continues its optimism into 1995. The crops sector is performing very well. Yields, quality, prices and market opportunities have been excellent. Special crops such as pulses are increasing in acreage providing for a better mix of income opportunities for producers. Demand and price for peas is good. Producers and processors of canola are taking advantage of a good marketing year, quality of seed grown was very good and demand for oil is strong. Continued expansion of the beef herd is expected in light of recent announcements by both Cargill Foods and Lakeside Industries to increase both beef slaughter and processing capacity. The hog production cycle entered a contractionary phase in late 1994 with the culling of a large number of sows from the breeding herd. At the same time, the sector continues to undergo rationalization as smaller operations go out of business and large farrow-to-finish units are being built.

The horticulture sector had a good year in 1994 with relatively good crops and strong prices. Honey producers continue to be concerned about the growing number of cheap Chinese honey imports, although prices for Canadian product remain steady. The forage sector in western Canada experienced record production levels of processed alfalfa pellets and cubes. Exports of densified hay increased by 50% in 1994. However, with the anticipated reform of the Western Grain Transportation Act (WGTA) in 1995, the dehy sector is concerned about further rationalization of processing facilities and a loss of competitiveness in Asian markets. Sugar beet producers experienced a record harvest in 1994.

However, the future of the industry became uncertain on January 1, 1995, when implementation of the GATT agreement imposed trade restrictions on US imports of sugar and sugar containing products from Canada. The potential impact of

these restrictions on the Canadian sugar industry is not yet known.

The forest products sector in Alberta is optimistic that current healthy profits and investment opportunities will continue for some time. The value of products shipped in the first nine months of 1994 showed a 45% increase at \$2.1 billion, well on the way to a record year according to the Alberta Forest Products Association.

The lumber and panelboard industry is confident that floor prices will remain strong despite some concern that housing markets may weaken and cause short term price fluctuations. North America is seeing explosive growth in OSB production with 19 new plants under construction or announced. There is some concern that over-supply of panelboard products may result. In Alberta, two new OSB plants are under construction and investment is also taking place in new sawmilling and renovation projects. It is also expected that the added value segment will experience substantial growth, including specialty lumber products from aspen and other hardwoods.

On the pulp and paper side, there is renewed confidence in the industry. The dollar value of pulp shipped increased by 92% while production was up 34% during the first nine months of 1994. Pulp prices are set to rise a further 10% to \$825 per tonne US in March and healthy profits are expected. Most producers now have customers on an allocation system. Alberta will continue to see some expansion in pulp and paper production because of commitments already made. Overall, the outlook for the forest products sector in Alberta is for modest but stable growth with employment growth occurring primarily in the added value and small sawmilling and specialty mill subsectors.

Manufacturing

Manufacturing continues its upward trend in Alberta. Cumulative shipments from January to October 1994 were \$20.6 billion, an increase of 17.3% over the same period a year earlier. The most significant gains occurred in electrical and electronic products (51.1%), paper products (41.1%), and machinery (38.3%).

Employment is also on the rise. In December 1994, 109,000 people were employed in Alberta manufacturing, an increase of 19,000 or 21% from

a year ago.

Advanced Technology

The outlook for the advanced technology sector is positive and, in general, there is growing optimism for increasing exports. Most firms have trimmed costs during the recession and are actively pursuing new business.

Revenues in the electronics and telecommunications manufacturing sector rose 36% from \$1.1 billion in 1991 to \$1.5 billion in 1993. Projected sales for 1994 are estimated at approximately \$2 billion. Over 80% of products are shipped out of Alberta with more than half going to the US. The expansion of Northern Telecom accounts for a large percentage of the growth, but other established firms are experiencing upswings and several new enterprises have been established. Some information technology companies are achieving success with the aid of strategic alliances with foreign firms.

In telecommunication services, AGT accounts for the majority of revenues, followed by EdTel. This picture will change in the Spring if the proposed sale of the Edmonton phone service to Telus is completed, giving AGT/Telus control of all the traditional phone market. However, deregulation of telecommunications has opened up a growing market for long distance and data communication resellers. This will create opportunities for both national and local companies, and also provide some competition for AGT in these services.

During the fourth quarter of 1994, firms involved in the medical products industry experienced continued growth; focusing on the export markets. Domestically, concerns have been raised in regards to both Health Canada's proposed cost recovery program and the Alberta government's health care reform. Companies are changing marketing strategies in response to the proposed changes, the outcome of which will not be known for probably a year.

The aerospace industry in Alberta is intensely competitive. Primarily centered in Calgary, Edmonton and Lethbridge, this industry has two main components: large firms with military or other major contracts, and small firms that either work independently on repair and maintenance or act as subcontractors to the larger firms. Both are,

by and large, currently healthy; notable exception being the Pratt and Whitney engine plant in Lethbridge which has not been able to expand as originally planned. Some small independents are doing very well overhauling small corporate aircraft such as twin engine Cessnas; others with a military focus like Field Aviation West have retrenched and are not hurting as badly as before. Among the large firms, Hughes Aircraft, and CDC are both doing fine; EDO Canada has diversified successfully and Edmonton-based CAE, which is also diversifying, is busy with a military contract on the Hercules. Pelorus Navigation is also healthy, having kept up with technology and successfully brought on new products. Pelorus has just signed a partnership with a Phoenix, Arizona branch of Honeywell Inc. to assemble, test and install a new generation of automatic landing systems for aircraft. A new airline, Advanced Air Charters, has begun operating out of Calgary, primarily serving the southeast Asian market.

Services

The **oil and gas service industry** expects to be going flat out at least until Spring break-up and fairly steady thereafter. The Canadian Association of Oilwell Drilling Contractors, which represents all 33 Canadian drilling companies as well as 65 service rig firms, is predicting another good year for the oil and gas drilling and service industry. Major service centres such as Red Deer should continue to see strong activity. So too should northern centres like Fort McMurray, Grande Prairie and Yellowknife; the latter because of increased activity at Norman Wells as well as diamond and base mineral exploration and development. Continued strong activity in the oilpatch augurs well for spinoff jobs in manufacturing, value-added processing and related service industries.

The Alberta Construction Association is predicting 4% growth this year with value of contracts close to \$10 billion. Growth is expected to come from the private sector and will stem mainly from large industrial projects in forestry and energy. Residential construction in large urban centres like Edmonton is likely to be lower in 1995.

Tourism in Alberta is continuing strong this winter, with growth of 2.5% to 3% predicted for 1995. Hoteliers are expecting a 5% growth rate due to increased corporate travel, mainly from the US, and from Asian travellers expected with increased Canadian Airlines service. Direct entries from other countries are up 14.9% as of September 1994, with entry from US down 1.9%. In addition, the lower Canadian dollar should help lure visitors from abroad. Both the major resort development in the Banff-Canmore corridor and a very successful ski season that is up 25.1% over 1993, should help boost tourism in 1995. Sunshine Village opened the season with record attendance, and Lake Louise reports a very healthy season, strengthened by good snow conditions and American media attention from hosting the World Cup race early in the year.

Major structural changes that will influence tourism in Alberta in 1995 are: the establishment of the Alberta Tourism Corporation, a public-private sector tourism sector partnership; the opening of the Canadian Tourism Commission (CTC) in February; and the development of a Western Tourism Alliance to market western and northern Canada.

OBSERVATIONS

"It's a vote for common sense, and a vote for the economy. I hope the people of Windsor would be proud to have an oil field beneath the land as having a castle above it." - Calgary oilman Desmond Oswald's reaction to hearing that Berkshire County Council had given approval for his company to drill a test well on the lands of Windsor Castle.