



SASKATCHEWAN PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

MAY 1995
SPRING ISSUE

OVERVIEW

Forecasters are predicting a softening of the Saskatchewan economy in 1995 compared to the strong primary resource and construction driven growth of 1994.

The elimination of the Western Grain Transportation Act (WGTA) is expected to impact farm income in the Prairie provinces despite favourable grain prices. Some income growth is expected in the 1996 farm sector through extra capital payments to landowners for the loss of land values and the cut back of production levels.

Medium term forecasts remain speculative as the impact of cash transfers to the provinces is not yet known. The Toronto Dominion Bank forecasts

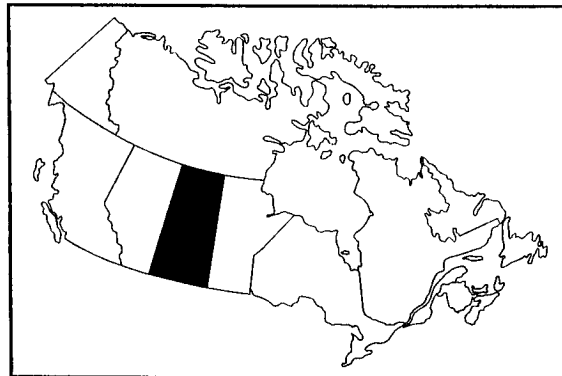
Saskatchewan gross domestic product (GDP) to grow by 2.8% in 1995 and 2.2% in 1996. The future will depend on continued prices and markets for primary resources. A forecasted decline in natural gas is expected to slow the province's economy in 1995 and the effects will continue well into 1996. Reduced drilling activity and crown land rights sales this year already reflect these trends.

INDICATORS

The unemployment rate in Saskatchewan continues to be the lowest in the country at 7.5% in March 1995. This is a change from 8.5% in March 1994 and appears to be due to a real decline in unemployment and not declines in the labour force. Over this period, the number of people seeking

employment increased by 4,000 and employment increased by 9,000, resulting in an unemployment drop of 5,000 in the labour force. Over the same period the province's population grew 0.4% to 1,017,200.

Retail sales continue an improved performance trend with a 6.3% change from January 1994 to January 1995. Lower borrowing rates observed in the first part of 1994 led to increased consumer spending. However, higher rates toward the end of 1994 and early 1995 may dampen this consumer confidence.



The first quarter of 1995 showed bankruptcies in Saskatchewan reaching a total of 456, a 7% increase over last year's activity during the same period. These were composed of 353 consumer and 103 business bankruptcies.

Domestic exports increased 70% from \$483.7 million to \$822.4 million year to date as of January 1995. This dramatic change is credited to a declining Canadian dollar and productivity improvement in products and services.

MOOD

The mood in Saskatchewan always improves in the spring as it is seen as a period of renewal. This optimism is supported by the Province announcing a \$119 million budgetary surplus for 1994-95 fiscal year and a forecasted surplus of \$24.3 million in 1995-96. Although improving grain and oilseed prices are good news for farmers in the short term,

a slowdown in oil and gas drilling is forecasted to cause a slower growth in the economy.

Long term profitability is a concern for many farmers because of the elimination of grain transportation subsidies and the impacts of this action on farm income. A recent survey of planting intentions indicates Saskatchewan farmers will actually decrease their wheat acreage this year by planting 15.6 million acres, a slight drop from the 15.8 million acres seeded last year. These expectations are based on favourable prices and expectations of favourable growth conditions.

New firms moving to the province along with plant expansions and new capital projects underway or planned bring some optimism to consumers and job seekers. The following are just some of the new projects which add to an optimistic mood:

- Canadian Imperial Bank of Commerce will spend \$53 million to set up call centres in Halifax and Regina. It is expected to be completed in the spring of 1996 and will create 500 jobs in Saskatchewan.
- Flexi-Coil, a company that builds air seeders and other farm equipment, plans to carry out an \$18 million expansion. The company forecasts 100 to 200 new jobs each year for the next three years. The firm currently employs more than 1,400 people in Saskatchewan.
- A new canola crushing plant and oilseed refinery owned by Harmill Ltd. will start construction this year. Valued at \$83 million, it will have the capacity to crush 700,000 tonnes yearly.
- A major projects inventory in Saskatchewan indicates that 125 major projects valued at \$2 million or more are planned or underway from 1996-97. These projects will have a value of approximately \$2.5 billion. In addition, having the province's credit rating upgraded from BBB to BBB (High) by the Dominion Bond Rating Service and the recently announced business tax breaks in the provincial budget are receiving positive business comment.

KEY SECTORS

Agriculture

There are expectations that farmers will plant 15.6 million acres of wheat and durum this spring, down

slightly from the 15.8 million acres seeded last year. Decisions made in agriculture this year will be reflective of a higher cost structure on the prairies: higher transportation costs and changes to safety nets and crop insurance will focus farm production on higher value crops and more domestic use of grain over the medium and long term.

Farmers are expected to use record amounts of fertilizers this year. The shift towards more nutrient dependent crops is fuelling the demand. Crop rotation and nutrient replacement are priority considerations if production levels are to be maintained. Farmers spent \$304 million on 922,845 tonnes of fertilizer in 1993 and last year they spent \$444 million on 1.1 million tonnes.

Improved prices and diversification are supporting farm cash receipts above 1993 levels despite dramatic drops in program payments. Year-to-date farm cash receipts from the 4th quarter of 1994 showed a 6.9% increase. This was offset by decreases in livestock and program payments.

Mineral Production

Potash production is rebounding from a weak 1993. Potash Corporation of Saskatchewan had a 1994 record profit of \$128 million. The current year is also encouraging with quarterly records for sales volume, production and earnings recorded in the first three months of 1995. The year-to-date potash production for the province increased 22.7% from 5,824.1 thousand tonnes as of December 1993 to 7,146.9 thousand tonnes as of December 1994. Increased use in Canada and USA, a weak dollar and sales to China are having a positive impact on potash production. In addition to higher sales and production, the price of potash jumped from \$87 per tonne in the first quarter of 1994 to \$101 this year.

Oil production continues to increase on a year-over-year basis with slightly higher prices and improvements in technology, such as horizontal drilling. Crude oil production increased 10.4% from 1,391.7 thousand M³ in December 1993 to 1,536.2 thousand M³ in December 1994. Grad and Walker Energy Corp. are planning to drill over 100 wells in 1995. In addition, Wascana Energy Inc. plans to drill 192 wells in Estevan, Lloydminster, Swift Current and northwest Saskatchewan. A major transmission expansion

project is planned by Sask Energy costing approximately \$120 million. This project, scheduled to start in the summer of 1995, will provide transportation access to new reserves and add main grid capacity to move natural gas to market.

Uranium production continues to be consistent with a 5.1% increase in world demand for uranium forecasted from 1994 levels to 1997.

Saskatchewan uranium production increased 51.1% from January 1994 to January 1995, indicating Saskatchewan's dominance in this area.

Advanced Technology

The outlook for **advanced technology** continues to be good. Pelorus Navigation Systems will develop and manufacture Local-Area Differential Global Positioning Systems (LADGPS) in the province. This project should create 100 new jobs in manufacturing. Pelorus will work with SED Systems in Saskatoon on design and manufacturing.

To foster growth in Saskatchewan's information technology sector, a Software Technology Centre was established late in 1993 and is located on the University of Regina campus. The centre offers vital business support in the information and knowledge based activities. Saskatchewan information technology companies already have strength in information systems for health care, pharmacare, nursing, banking, telecommunications, satellites, geographic information systems and distance education. Saskatchewan continues to be a world leader in the development of automated health cards, on-line banking, telecommunication and satellite technologies.

A recently announced Telecommunication Enhancement Fund will begin developing the electronic infrastructure for a province wide multimedia learning network. The network will eventually link all schools and regional colleges to the Internet, SchoolNet, the provincial electronic library system, the province's two universities, SIAST and the Saskatchewan Correspondence School.

Biotechnology

Saskatoon continues towards becoming Canada's centre for agricultural biotechnology. A \$9 million federal-provincial project to build a biofermentation facility at Innovation Place has recently been announced. The plant and laboratory will be used to grow microbes, which are the active ingredient in biotechnology products. It is forecasted that the city could get at least two more biotech companies starting up each year for the rest of the century. Five years ago, there were four agriculturally based biotech companies and now there are at least 22. The sector received a boost in April when the federal government approved the country's first genetically engineered canola variety.

Manufacturing

Cumulative manufacturing shipments increased 22.8% in January 1994 to January 1995. Increases were recorded in food, beverages, plastics, leather, textiles, wood, printing and publishing, fabricated metal products, machinery, transportation equipment, electrical products, non-metallic mineral products, chemical products and other manufacturing. Decreases were observed in clothing, furniture and fixtures.

OBSERVATIONS

Nomination activities are well under way in most ridings while political issues are receiving more media attention as provincial June election fever runs high.



QUÉBEC PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT MAY 1995 SPRING ISSUE

OVERVIEW

In 1994, the Quebec economy posted a real growth rate (i.e. before inflation) of 3.6%, its best performance since 1988. This improvement continued in the fourth quarter, but some indicators suggest that growth will be less robust this year, especially if the recent drop in consumer spending continues and the export boom loses some strength. On the other hand, private investments will remain high.

INDICATORS

According to the latest available data, the Quebec economy (provincial GDP at market prices deflated by the Canadian implicit price index) grew by a very healthy 1.3% from the third to the fourth quarter (an annual rate of 5.3%). This strong performance essentially reflects the boom in the value of Quebec exports (annual rate of 36.5% from the third to the fourth quarter). By contrast, total domestic demand (constant \$) remained stagnant during the same period. The latter situation is explained by the small increase in personal spending on consumer goods and services (annual rate of 1.4%), lower current public spending on goods and services (annual rate of -1%), and the collapse of the residential construction market (annual rate of -30.4%). Since these three spending categories represent more than four-fifths of total domestic demand, their poor performance offsets the remarkable increase in business expenditures on machinery and equipment (annual rate of 20.5%), and non-residential construction by governments (annual rate of 17.7%).



According to estimates in the last provincial budget, the current year will be similar to the previous one, except that the anticipated drop in exports will result in growth of about 3.3% in the economy of La Belle province.

Among consumers, the reluctance to spend observed at certain points last year, which was diminishing, reappeared during the first quarter of 1995, resulting in a (seasonally adjusted) decline of 1.2% in retail sales compared with the previous quarter. Retail sales therefore remain at a level that is similar with that of the same date last year. Another indicator is that to date restaurant service revenues in licensed establishments are down by 1.1% compared with the first three months of 1994. In Quebec, this

reluctance partly reflects public concern over the prevailing situation in the labour market, reinforced by media reports of large numbers of layoffs in the private and public sectors. Consumer caution also reflects stagnant earnings. For example, in March 1995 average weekly earnings in Quebec were only 0.4% higher than a year before. The savings rate in Quebec also remains at a very low level, although according to data compiled by the Quebec Department of Industry, Trade, Science and Technology, it rose slightly during the fourth quarter and is now at 7.6%. Savings are therefore not available as a springboard for higher consumption. Finally, the difficult financial position of consumers can also be illustrated by the number of personal bankruptcies. In Quebec during the first four months of 1995, these increased by 14.0% over the same period last year.

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There is more dynamism in the manufacturing sector, where shipments during the first quarter of 1995 were 19.3% higher than the same period in 1994. Many of these shipments are to the United States and other places where demand for Quebec products remains high. Some slackening in exports must, however, be anticipated this year since the American locomotive is running out of steam. In this connection, the Quebec Department of Finance is anticipating a 9.5% volume increase in the province's international exports in 1995, compared with 12.2% in 1994. Another sign of business health is substantially higher profits. Thus, according to the provincial accounts, company earnings before tax during the fourth quarter were up 54.6% compared with the same period last year. These revenues are welcome, since in order to maintain their competitiveness Quebec companies are continuing to invest in machinery and equipment. According to the Statistics Canada survey of investment intentions, machinery and equipment investments in Quebec (all sectors) should increase by 7.4% this year for a total of \$11.2 billion. The projected increase is even larger in the manufacturing sector (24.4%). Along with exports, capital assets will be the prime mover of the Quebec economy again this year.

In May, seasonally adjusted employment increased by 10,000, a reversal of the trend after two successive months of job losses. Women benefited from this brighter situation, since 13,000 new jobs were filled by women in May, while men lost 3,000. The gain in jobs and the reduction of the labour force by 11,000 led to a fall in the seasonally adjusted unemployment rate from 11.4% in April to 10.9% in May. This is the lowest unemployment rate recorded since September 1990. The situation in the job market could continue to improve in future months, according to the steady rise in the seasonally adjusted help wanted index in Quebec from 100 in December 1994 to 105 in May 1995. In addition, the results of the survey by Manpower Temporary Services of hiring prospects are encouraging, since 24% of Montreal respondents indicated that they intended to create jobs during the third quarter of 1995, compared with only 12% in the second quarter.

In parallel with these hiring intentions, the number of employers in Quebec (as measured by the number of payroll deduction accounts) continues to rise slowly. There are currently 228,055 accounts, or 1,751 (0.8%) more than a year ago. The number of self-employed workers continues to

increase. In May 1995, there were 463,000 such workers in Quebec, a gain of 3.6% over the same month last year. This interest in entrepreneurship was seen in the number of inquiries received by the Centre Info entrepreneurs in Montreal. For example, between April 1994 and March 1995, the number of contacts (calls and visits to the Centre by entrepreneurs) more than doubled.

MOOD

Consumers' reluctance to spend reflects their pessimism, which is confirmed by the marked decline (1991 = 100) in the Conference Board's Quebec consumer confidence index, which recently fell drastically from 107.5 in the fourth quarter of 1994 to 95.6 in the first quarter of 1995.

Quebec businesses are reacting rather negatively to Bill 90, which would force companies to spend the equivalent of 1% of their payroll on labour force training. According to a CROP poll conducted for the Canadian Federation of Independent Business (CFIB), 84% of respondents indicated they were satisfied with training provided by the private sector. Based on these results, the CFIB suggests as an alternative that tax credits be used to promote training.

KEY SECTORS

Traditional Industries

The Quebec **mining sector** is currently experiencing a substantial recovery. According to the Quebec Mining Association, 18 mining projects are currently in progress and total investments of \$1.5 billion are anticipated in this sector during the period from 1994 to 1997. For example, the Louvicourt mine recently opened after investments of \$189 million, and a number of other mining projects have been announced or are in progress, including: the Raglan nickel deposit (Falconbridge - \$500 million), the Troilus gold deposit (Metall Corp - \$150 million), and miscellaneous projects (Cambior Inc - \$77 million). The strong performance of the Quebec mining industry is based on current high prices paid in American dollars.

For the second year in a row, the Quebec **food industry** is planning major capital spending worth \$360 million, according to a recent Statistics Canada survey. One factor motivating companies

in the food and beverage sectors is market segmentation and the need to differentiate products. This trend can be illustrated by some recent examples. In the beverage market, a dairy is attempting to stand out from its competition by marketing micro-filtered milk that required an investment of \$8 million to produce. Following an agreement with an American distributor, a micro-brewery announced a \$4.2 million investment to step up production. In an attempt to find new market niches it will launch two new beers, including one marking the Médiévale de Québec. Finally, a large fruit juice producer and a tea distributor are joining forces to develop the ready-to-drink iced tea segment.

The **lumber industry** achieved record production of 5.1 billion bd ft in 1994. More than 50% of this production is shipped to the United States. This favourable environment generated revenues for sector companies that were used to make plants more competitive. In recent months, however, a significant fall in lumber prices has been noted as a result of the marked slowdown in housing starts in both Canada and the United States. In addition, according to the Quebec Lumber Manufacturers Association, there are two major issues at this time. First, access to the resource may be threatened by Aboriginal claims, certain advocacy groups and government policies on inhabited forests. Also, the Quebec government's announcement of a major increase in stumpage dues is also of concern to the industry, and discussions are in progress on developing calculation methods related to determination of royalties payable. The current market situation of the **pulp and paper industry** is extremely favourable and newsprint buyers have had to swallow a price increase of US\$50 per tonne in March and a further increase of US\$75 per tonne in May. Further price increases of around 10% have already been announced for September. In response to protests by newspaper publishers, the president of a large paper mill indicated that, after inflation, prices were still below their 1988 peak and that buyers had enjoyed very low prices over the last four years.

After the mild winter last year, the Quebec **fur industry** is hoping that next season's sales will be toasty warm. The industry's marketing points are the low value of the Canadian dollar in relation to foreign currencies, just-in-time product delivery and elimination of tariff barriers. As in the case of clothing, a number of manufacturers have

repatriated to Quebec manufacturing activities previously carried on elsewhere.

Quebec's **fashion and textile industry** has about 2,000 manufacturers and currently provides some 54,000 jobs. In recent years it has concentrated on developing exports to the United States, modernizing production equipment and exploiting middle and upper market niches. These efforts have borne fruit. According to the organizing president of the recent clothing technology show in Montreal, Quebec companies are technically on a level with the large foreign manufacturers. The low dollar is also helping them penetrate foreign markets, and major textile projects to serve the American market are in progress or under consideration. Information gathered from manufacturers indicates that the present value of our dollar is satisfactory. Stabilization of interest rates is also appreciated, since it facilitates investment planning. Finally, a number of companies in the clothing sector told us that they hope to see elimination of government orders regulating the industry. The large number of orders apparently greatly complicates administration by imposing different hourly rates according to the type of product manufactured.

In the **automobile industry**, the North American market is beginning to contract and the GM plant in Ste-Thérèse is therefore planning to eliminate one of two shifts in October. About 1,400 workers will be laid off indefinitely. There is no change at the Hyundai plant, which remains closed following suspension of activities for an indefinite period. An American company, RCI, publicly announced a plan to make police cars and may eventually use the Hyundai plant. However, this tentative project would require a partnership with General Motors. In automobile subcontracting, companies such as Montupet and Waterville TG are continuing to invest.

The **bus manufacturing industry** is going at full speed these days. Novabus has secured two contracts totalling \$200 million from New York City and the state of New Jersey. The vehicles will be produced in New Mexico where Novabus acquired a plant last year. This type of contract could eventually benefit Quebec (possibility of manufacturing parts and components). Novabus is also completing development and testing of a low-floor bus and is setting up a production line for this vehicle in St-Eustache. In the highway coach

sector, Prévost Car has been acquired by the Swedish giant Volvo, which intends to continue and step up manufacture of buses in the Ste-Claire plant. The company is planning to increase vehicle production from 500 to 1,000 by 1999. Current demand is very high and the order book is well filled.

The **heavy truck, trailer and vehicle body** sector continues to perform well. The largest builders have sufficient work for some months ahead. In recreational vehicles, Bombardier is planning for consistent growth in sales of its Sea-Doo, which will mean benefits and investments for subcontractors. For example, Beauce Composites announced a \$9 million investment to set up additional production lines for Sea-Doo hulls and bodies.

According to the latest data, **plastics** shipments from Canada should total \$15.2 billion for 1994. The 1995 year also seems promising, since a 10% increase in the value of shipments to \$16.7 billion is projected. Quebec currently represents about 28% of the Canadian industry. A number of investment projects are developing in the plastic film subsector. Some plastics specialists are reporting problems in recruiting skilled labour. In addition, resin supplies are beginning to cause problems. This is resulting in a significant price rise, and companies in the sector must therefore be very cautious in the area of supplies in terms of projecting their requirements and ensuring that they can cope with price increases. There is also a danger that a too rapid rise in plastics prices may lead to a substitution effect toward other materials.

Despite the competitive advantage represented by the low Canadian dollar, **machine shop** operators seem to be having trouble penetrating foreign markets. This situation is explained in terms of their lack of interest in exports or lack of information on foreign markets.

Machinery manufacturers are having trouble keeping up with demand and delivery delays are lengthy. This is especially true of firms serving the natural resources sector. Companies in this sector are responding to demand by adding shifts rather than making new investments.

In the first quarter, the **real estate market** continued its downward plunge. The resale market is in great difficulty, especially the market for

small rental buildings ("plexes") in the greater Montreal region, where a CMHC study indicates that there are 35 plexes on the market for each interested buyer. The market is in balance when the proportion is 10 to 1. In the Quebec home construction sector, only 3,407 housing units were started in the first quarter. This is a reduction of 26% compared with the same period last year and the lowest level of activity for a first quarter since 1980. According to Colliers Pierremont (a commercial and industrial real estate broker firm), 1995 should be similar to 1994 for the industrial real estate market. It is a renter's market, since the vacancy rate is still high at around 12% in greater Montreal. Colliers Pierremont does not anticipate any speculative new building by developers for a considerable time and the only projects in progress are being custom built for customers. However, the vacancy rate should gradually decrease during the year. In the office space sector it is a game of musical chairs. Additional demand for space by some companies is offset by a larger supply from tenants streamlining their operations and freeing up space. The latest available data indicate that the office vacancy rate in Montreal is 16.1%.

New Economy

In the **aeronautics and defence** sectors, the trend remains positive (increasing sales) although not very strong. Since government cuts will be with us for a long time yet, we are seeing in Canada a trend to application of business standards in carrying out military projects. This minimizes costs, facilitates equipment maintenance and makes for a greater standardization. Companies in the sector are continuing their efforts to have the Defence Industry Productivity Program (DIPP) revived, arguing that they need financial support for their R&D in order to meet international competition.

Quebec now has about 110 companies whose products and services depend on **biotechnologies**. These companies work mainly in the health, agri-food and environmental fields. During the last two years, growth in this sector has slackened and few new companies have appeared. This is especially true in the agri-food and natural resources areas. The situation is apparently caused by the effects of the last recession and the frequently disappointing results of R&D. On the other hand, very few sector companies have closed down. The companies that fare best are those specializing in

analysis and clinical testing (ITR, Bio-Recherches, Cato, Phoenix, etc.), since they are profiting from the weak Canadian dollar to penetrate the international market. As partnership is the key to development of the Quebec biotechnology sector, the companies want governments to help them in the areas of R&D networking services, support for company startups, international partnership and identification of patent opportunities. There is apparently a great deal of activity in the area of risk capital and a number of major industrial projects (IAF-Biovac, Bio-Intermediar, etc.) could materialize as a result of the existence in Quebec of a large number of public and private financing sources (Bio-Capital, Société Innovatech, etc.). Paradoxically, unlike other provinces, Quebec does not have a strong biotechnology sector association.

Most Quebec **medical products** manufacturers export to the United States. In such a context, the weakness of our dollar in relation to the American currency is a great advantage, since our companies can substantially increase their profit margin. Some service companies and manufacturers of medical supplies have made a breakthrough in Middle-East, European, Mexican and Latin American markets. In order to meet this demand some of them must increase the production capacity of their plants in Canada or abroad. This export effort is essential in order to implement the growth strategy of these companies, especially since the local market is shrinking. The reduction in transfer payments for health care is currently having a significant effect on the Quebec medical industry. This means that the Quebec and Canadian markets are shrinking and it is very difficult for small companies to retain their market share. The current budget cuts have already intensified competition which is now based on total price (cost of acquisition and maintenance). Future prospects on the domestic market appear rather dim for local manufacturers following the announcement of further cuts and hospital closures.

In the **pharmaceuticals industry** restructuring on a global scale is going on and some multinationals, including Rhône-Poulenc and Cyanamid Canada, have announced plant closures in the Montreal area which will result in about 300 layoffs.

The **environmental protection industry** is relatively new in Quebec and was basically started in response to the Quebec water purification program (PAEQ). This program is coming to an end and the aluminum plant projects have been

completed. This industry's survival in Quebec now depends on new regulations which are slow to appear, development of new technologies and the industry's ability to adapt to the requirements of international markets. To succeed in this, the industry must remedy its weaknesses by concentrating on strategic alliances, company groupings, formation of consortiums, export clubs, more active promotion of the concept of business networks and the development of management skills in BOT (Build-Operate-Transfer) projects. The success of events like the Americana 95 convention in Montreal in March, which attracted 4,000 visitors, including 300 from abroad (United States, France, Belgium, South America) confirms that the Quebec environmental protection industry is aware of this issue.

The Quebec **software industry** is becoming well established and is present on international markets in highly specialized and, above all, highly diversified niches such as imagery and computer graphics, industrial automation, connectivity, public sector and transportation sector computerization and interconnectivity products. The industry is also facing major issues relating to technological change, access to export markets and convergence of the telecommunications, informatics, audio-visual production and publishing industries. Expansion into international markets is currently raising a major problem: financing, demand on the Quebec market is often not enough to provide adequate working capital. The situation is especially difficult for companies with total sales below \$500,000. Risk capital firms are not interested in this type of business, and several with excellent ideas are not able to implement them due to lack of financial resources. Furthermore, products must often be adapted for export markets, expertise in business networks is not much developed among Quebec producers and the major distributors are for practical purposes inaccessible to small software producers. Solutions depend on strategic alliances through the signature of service and distribution agreements with foreign companies, and also on adequate financing. Despite this, the Quebec software industry has significant advantages. For example, it can rely on a network of liaison and expertise transfer centres like Innocentre, which is increasingly playing a constructive role with small companies in the industry. In addition, the first phase of CANARIE has been conducive to the emergence of projects in Quebec (M3i, Eicon, Machina Sapiens, LMSoft,

IMPACT IMMEDIA, Alis Technologies). It should be noted that CRIM is represented on the CANARIE board, which is playing a decisive role in the project selection process.

A number of initiatives relating to the **information highway** are being developed in Quebec. The UBI and Sirius projects already announced are making intensive use of multimedia technologies, but more recently COGECO announced an informatics highway pilot project involving connection of computers to a cable system. The goal is to provide access to a wide range of interactive multimedia services in the areas of culture, education and government services. This project will also provide access to new services developed by Quebec suppliers and partners, and open a window on the world via its high speed connection which can be used, for example, to receive audio and video from live performances or events. It can also be used as a gateway to international networks like Internet. In April, Québec Téléphone announced a new Internet connection service uniformly priced and available throughout its territory. Starting in the fall, this new "GlobeTrotter" network will be available to residence and business customers. Business corporations will be able to rent virtual windows to publicize themselves in this electronic market. To help young people learn how to navigate in the world of computer communications, Québec Téléphone will sponsor creation of local gateways to its information highway for cultural and educational purposes in a number of educational institutions. Finally, "Infoway", another recently announced information highway project, is the result of a consortium of Eicon, Positron, AIKS and CRIM. The Infoway product family can be used to create direct links between small and medium-sized users by means of fiber optic networks operating at 150 and 600 megabits/sec.

The Montreal **film industry** is very active and 1995 may be a record year. Last year, 34 movies and a large number of television programs were made in the city. The total value of these productions was \$300 million, with about one third being foreign productions. The forecast for this year is between \$350 and 400 million. Montreal has many advantages in this area, and a promotion campaign launched two years ago by the City of Montreal, SODEC and a group of laboratories, unions and others has also helped the industry recover after 1992, a disastrous year. However,

according to some industry spokespersons, a horror situation could be played out as early as next year if the City of Montreal does not renew the \$200,000 budget to promote the city to foreign producers.

The **advanced production technology** sector consists of computer hardware and software, electronic systems and systems integrator firms. Growth in this industry depends on demand generated by the manufacturing sector. In recent months, a number of companies in the sector have enjoyed significantly higher sales, due to strong domestic and international markets, especially the American market. Systems integrator firms have experienced the greatest growth in the advanced production technology sector in terms of sales and job creation. The value of the Canadian dollar has enabled them to gain a better position in the American market. In future months, it is estimated that the domestic market will be relatively strong as a result of continuing investments by manufactures and the catching-up required in terms of productivity. On foreign markets, the lower dollar could affect the competitive position of hardware and electronic systems suppliers, since components must be purchased abroad. In this industry, a major investment of approximately \$15 million by an American company is also in prospect.

Management consultants, especially private consultants, are experiencing a stable situation in Quebec. Productivity is up in this industry since individuals are being required to work harder and profits are increasing following cost-reduction measures. However, financing remains difficult and there are increasing fears of competition from very large American firms. An industry spokesperson felt that access to the American market for Quebec and Canadian players is not as easy as access to Canada by American firms, despite the trade agreements between the two countries.

A partner in a large firm of **chartered accountants** and consultants noted that the trend is for clients to demand more and more for less money. He added that small firms are still experiencing financing problems. A suggested partial solution of this problem would be to extend the provisions of the Small Businesses Loans Act, for example to guarantee loans to finance a firm's working capital. Finally, still among accounting firms, the trend seems to be for firms of similar size to merge in

order to gain economies of scale. This phenomenon is being currently observed initially among small and medium-sized accounting firms.

Last year in Quebec the number of international tourists crossing the border was up by 2.4% and they spent 3.6% more. The increase was especially marked in the case of tourists from countries other than the United States. This year, Tourism Quebec is projecting an increase of 2.9% in total tourist spending. Once again, the segment with the highest growth percentage (+8%) will be international (especially European) tourists from countries other than the United States. The exchange rate on the Canadian dollar is still helping the price of Quebec tourism products. The low value of our currency is also encouraging Quebecers to stay in Canada. This inflow of foreign tourists and the stay-at-home approach of Quebecers will lead to a further reduction in 1995 of Quebec's deficit on the international tourism account, which was \$1.206 billion in 1993 and \$883 million in 1994. Although the first three months of 1995 are not representative (demand during these months is only 19% of the total), they indicate positive results, with a slight increase of 0.4% in hotel occupancy in the Montreal area over the same period in 1994. There is also a 6.3% increase in visits to Montreal tourist attractions and a 2.7% increase in the number of passenger departures and arrivals at the Montreal airports. In view of these numbers, the projected overall growth in spending of 2.9% seems credible.

OBSERVATIONS

According to a SOM poll conducted in February and March for the Groupement québécois d'entreprise (a group of 600 business leaders), small and medium-sized companies have no confidence in their bankers. In response to the

question whether they were sure that their bank or caisse populaire would be there to help in the case of a setback, respondents give their financial institutions a rating of 5.7 out of 10. A rating

below 6 indicates an aspect requiring immediate improvement. Bankers' understanding of companies' needs was rated at 6.7. On the other hand, the general quality of service received from financial institutions was considered satisfactory (rating of 7.3). The poll also revealed that members of the Groupement invest in leading-edge technology (61%) and in employee training (87%).

Penetration of new markets is a concern of Quebec firms. According to a Léger et Léger poll conducted for Biron, Lapierre & Associés, 52% of respondent firms stated that it would be essential sooner or later to make a deal (involving an acquisition or merger) in the United States. Of the firms questioned, 38% indicated Ontario as a priority and 15% indicated Mexico or Asia.

According to a study by the Conseil du Patronat du Québec, absenteeism because of sickness or "personal obligations" costs the Quebec economy more than \$6 billion each year. According to the study, the 3.2 million workers in Quebec are absent for an average of 10.7 days a year, at an average cost to the employer of \$189.81 for each day lost.

Does financial sexism exist in Quebec and Canada? According to a recent survey of Canadian Federation of Independent Business members, the answer is yes. The study indicated that women who head a small or medium-sized business and apply for loans to financial institutions experience a refusal rate 20% higher than their male colleagues (similar firms). When these women do obtain a loan, the study concluded that in 95% of cases the interest rate charged is 0.5 of a percentage point higher and that in 61% of cases the "premium" is 1 percentage point.



PRINCE EDWARD ISLAND PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

MAY 1995
SPRING ISSUE

OVERVIEW

In 1994 the Island experienced one of the best rates of economic growth (at 5%) in recent years; all of the major components of the economy turned in banner performances. However, excepting that derived from construction of the fixed link and other infrastructure projects, most growth was export market oriented (Island exports rose from \$207.7 million in 1993 to \$260.2 million in 1994).

Despite such apparent progress, domestic production and markets remain stagnant and no basis has emerged to offer any change or improvement.

INDICATORS

Consumption of electrical power continues to increase at a 3 to 4% annual rate reflecting continuing industrial growth in the processed food sector and a nominal expansion in the home market; the fixed link (a temporary "blip" during the construction period) project is also contributing to greater electrical consumption. Slightly less growth is expected in the coming year.

Island Telephone Limited has recently experienced growth of about 2% in local (flat) and long distance (growth) activity; the economy seems stagnant at this time and no immediate change to existing patterns are expected.

The Guardian newspaper advises that local advertising sales to May 1995, have been exceptional; ad counts are about 10% greater than the same period in 1994 and are at levels not seen since the '80's. Growth has been most evident in

automobile and out of province (national) advertising. The economy seems to be strengthening.

Labour force data shows a reduction in the unemployment rate despite an increase in the labour force through the early months of 1995. At March 31, 1995, the unemployment rate (seasonally adjusted) was 15.7% compared to 17.2% at the same date in 1994; the participation rate rose from 64.8% at February 28, 1995, to 65.2%



C.M.H.C. statistics are not yet available for all of P.E.I. However, the Agency projects 1995 housing starts in Charlottetown will fall to 1993 levels. The resale market will be very soft through the early part of the year; average prices have fallen below those of 1994. The official

apartment vacancy rate of 6.7% is believed to understate the situation. Urban starts in the Province to April 30 are less than half the level of 1994.

Consumer price inflation has stabilized at about 1.8% although this number masks a wide range of movements; shelter, energy, transportation, education and food costs have risen while health, clothing, cigarette and liquor prices have fallen. Retail and motor vehicle sales in 1994 grew some 2.9% and 7.1% respectively; however in the first two months of 1995 retail sales have increased only marginally (1.5%) while there is an apparent fall back in new car sales.

The Conference Board of Canada forecasts real GDP growth of 2.9 and 1.8 percent in 1995 and

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1996. This shows a lowering of expectations from three months ago.

MOOD

The mood of the Province remains positive but cautious. A number of public and commercial construction projects are under way. The fishery, agriculture and tourism industries are showing mixed signals. While shore prices are at record high levels, it is too early to estimate either the impact of these when passed on to the market or to forecast landings which have been strong on the North shore but weak on the Eastern and Southern shores. The cost of planting the new potato crop has increased considerably since last year but processing demand should climb. Finally tourism bookings appear to be strong. On the negative side, Provincial civil servants remain concerned that future government cost cutting could impact on them while the public fears cuts to welfare, unemployment insurance and hospital/medical support programs.

KEY SECTORS

Manufacturing: Manufacturing shipments continue to rise, along with new capital investment in facilities, to support growing sales including exports which are up about 20% (from \$48.8 million to \$58.8 million) to March 31, 1995. This expansion of shipments has been broadly based (increases in metal fabrication, food, transportation equipment) although some other sectors faced falling sales (fish products, wood products). Manufacturers are generally optimistic. The comparatively low value of the Canadian dollar should encourage continuing export growth.

Resource Industries: The fishery has reopened following the winter hiatus. In 1994 reduced lobster landings were offset by strong shore prices and good markets. The loss of groundfish production led to a small decrease in overall sector contribution to GDP. In 1995, to date, statistics are unavailable; however the herring resource was strong although not fully exploited because markets were weak. Island fishermen have received a 600 metric tonne increase in crab quota and both shore prices and markets are strong. While lobster landings have not yet been projected high shore prices initially caused some price resistance in Europe while Japanese customers reluctantly placed orders. Apparently the European market is now

strengthening. Mussel processors have been unable to increase market prices but have been able to expand sales to the point where farm production is barely keeping up with growing sales. The ground fishery offers no immediate hope of recovery. The long-term future of the P.E.I. industry remains uncertain due to strong price competition from out-of-province buyers at the shore and less than satisfactory levels of value added output.

In agriculture potatoes dominate both the Island landscape and the sector. An estimated 97 thousand acres will be planted this year. Growth of processing capacity should absorb additional harvests; estimates are that another 30,000 acres of crop will be needed to satisfy the needs of Cavendish Farms and McCains. New markets in the middle east are being explored while possible technology transfers into eastern Europe should enhance long term prospects. On the other hand costs (fertilizer, inspection, transportation, etc.) have increased the investment risk to a point where crops will have to bring quite high prices (estimated at 7/8 cents per pound) to enable breakeven operations. The tobacco industry is exploring international markets and alternate crops as Canadian manufacturers have signified that after 1995 they will not purchase raw tobacco in P.E.I. Dairy farmers remain concerned about the probable impact of loss of subsidies. Another negative factor, in the eyes of the sector, is the effect that a phase out of transportation assistance programs will have on operating costs.

Services: The 1995 tourism season is just beginning to build on the Island. All factors appear to indicate a level of visitation which will equal or exceed last year's all time record of 759,000 visitors. Mr. Dave Bryanton, manager of the Research Division, Enterprise P.E.I., states that "the marketing campaign began the same time this year as it did last year and enquiries so far are on the same level as in 1994." He anticipates the strong visitation from Nova Scotia and New Brunswick to continue but is more cautious with respect to the New England market because of economic conditions there. Mr. Don Cudmore, General manager of the Tourism Industry Association of Prince Edward Island, predicts another record year with increases in the order of 10-15%. His prediction is based on recent discussions with member operators who report higher accommodation reservations, including more shoulder season bookings, than last year.

Equally important is the common theme expressed that potential visitors seem to be more excited than usual about coming to P.E.I. which, according to Mr. Cudmore "sure bodes well for the product which we have to offer."

The public service dominates the service sector. The impact of Provincial wage rollbacks has been reflected in weakened morale at work and reduced consumer spending. Bureaucrats remain nervous that the Government will initiate further cost savings measures at their expense. The employment cuts which will arise following the Federal Program Review have yet to be implemented but these too are influencing spending patterns. The general public has been alerted by the press as to the negative effects reduced public spending on health (a particularly strong concern), education, unemployment insurance and other federally funded programs may have upon the lives of individuals.

In the construction field, a number of Infrastructure Program projects are under way. The fixed link project will continue to fuel the economy through 1996 and possibly beyond. Cavendish Farms has begun another major expansion. Loblaws has announced (there is some local opposition) their intent to build a major store in Charlottetown. The food park project in Souris is believed to be very close to commencement. The Tignish Fisheries Co-op. has started a \$3. million expansion to produce a new line of value added lobster products. Small Fry Snack Foods will build a new facility at Slemmon park. McCains are rumored to be expanding.

OBSERVATIONS

On balance, the past three months have been steady and the outlook over the near term for all major components of the economy remains good. The consumer is cautiously optimistic although maintaining control of expenditures pending further signs of economic and income stability. The only major impediment to growth is psychological and until reports of corporate re-engineering, downsizing, slowing economies, rising interest rates, weak dollars, etc. disappear from the headlines this uncertainty is not likely to be overcome.



ONTARIO
PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT
MAY 1995
SPRING ISSUE

OVERVIEW

Ontario's performance during 1994 was the strongest in six years, with real GDP advancing by 5.7%. Economic indicators suggest that this growth cannot be maintained in 1995. Ontario exports, housing starts, retail and automotive sales all show signs of weakening. The economy is slowing, perhaps to regroup, but certainly moving to a lower, more sustainable, level of growth. Led by continuing strong manufacturing performance, it is expected that provincial growth for 1995 will still be in the 3.5 to 4% range.

Growth will be fuelled primarily by exports and investment in machinery and equipment. Consumer spending will play only a small role as consumer confidence continues to be weak. The spectre of public sector job-shedding, growing domestic inflationary pressures, relatively high US interest rates and the postponement of the Quebec referendum will keep credit costs high and create continued employment and political uncertainty over the next 6 to 12 months. This is affecting demand for residential construction and durable goods. While there is evidence of involuntary build-up of inventories, which will create some demand, government spending is forecast to decline.

Driven by strong economic performance of late 1994, job growth in Ontario picked up during the Fall, although it appears to have plateaued again during the early months of 1995. Significant hiring in the manufacturing sector, however, has continued unabated, with 123,000 new jobs being

created in the past year. The Ontario unemployment rate in April dropped to 8.8% from 10.2% a year earlier. With the current slowdown in the economy, it is expected that job growth will be relatively flat in the second half and analysts predict an 8.6% annual unemployment rate for the year.

During 1994, Ontario personal income rose by 2.3% and corporate profits by 63.8%. The 1995 outlook is that income will grow at a slightly faster rate, while profits will remain healthy and grow in the 30% range.



INDICATORS

Leading indicators signal slower provincial growth. Domestic sales for new vehicles, one of Ontario's important manufacturing sectors, dropped 1.7% (seasonally adjusted) in

March to its lowest level since August, 1994. US auto sales are also currently down, leading to monthly reductions of automotive exports of 8.8% and 5.7% for February and March. Provincial retail sales, following a flat performance of several months, fell 0.9% during March. In the important Greater Toronto Area market, new home sales were down 56% in April from the previous year, while resales were off 45%.

Performance indicators reflect the fall in demand. The Ontario help-wanted index stood at 108 in April (1991 = 100), down 1% in each of the last two months. Ontario Hydro reports that April's energy demand on a weather-corrected basis was off 1.1% on a month-over-month basis. While monthly direct industrial sales, aided by export demand, have been positive on a year-over-year

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basis, municipal and retail energy sales have been declining since January. Provincial consumer and business bankruptcies have also begun to rise on a year-to-year basis, creeping upwards by nearly 3% each. The social welfare caseload stood at 676,990, covering 1,341,263 beneficiaries in March and marked the fifth consecutive month of increase. This trend, however, is in part due to seasonality.

Meanwhile, other indicators still reflect the strong 1994 economic growth and produce the momentum which will pull the province through 1995. On a year-over-year basis, manufacturing shipments were up 25.6% during the first quarter, while company layoffs were down 5.1% during the first four months. March Ontario U.I. claimants have dropped 16.9% from the previous year. Recent economic growth, however, has meant higher cost of living increases of 2.6% in March and rising wage settlements (1.2% in 1st Q, 1995 compared to .3% in 4th Q, 1994).

MOOD

The mood of manufacturers is tending to the pessimistic. There is concern about rising inventories and a fall in orders. Compared to the previous quarter, relatively few businesses expect their production to increase over the next three months, while a growing number anticipate decreases. The Conference Board of Canada reports that 58.2% of businesses, however, think it is a good time to invest, particularly with 43.4% of firms reporting capacity utilization running at or above optimal levels. Of those firms planning investments, 45.9% indicated the bulk would be in Ontario.

The general public's view of Ontario economic conditions is pessimistic. The Conference Board Index of Consumer Attitudes for Ontario dropped 18.8 index points to 98.0 in the first quarter. The Environics poll of March/April also reflects this mood. Fifty percent of respondents indicate that it was "a bad time to buy", with 35% feeling that the economy was becoming weaker as opposed to 19% that felt it was getting stronger. A third of Ontario respondents indicate that the most important problem facing the country is unemployment. Poll results for Ontario, although indicating cautious attitudes, are generally more positive than those from other regions.

KEY SECTORS

A. Resource-Processing Industries

Farm cash receipts were up 1.8% in 1994, a positive trend in a year when program payments were cut substantially. Commodity prices for livestock restrained performance, as beef and pork prices fell. Further small downward adjustments in prices are anticipated in 1995. Crop farming generally experienced good prices in 1994, a trend that is expected to continue due to weather problems in the US that have limited plantings of certain crops. Beyond 1995, there is concern that measures will have to be taken in the post-Western Grain Transportation Act world to refocus Ontario's feedlot, grain and oilseed industries. Factors of concern include a re-evaluation of Ontario's grain transportation infrastructure, the realization that certain value-added activities will now be undertaken in Western Canada, the need to develop increased north-south movement and the need to take advantage of opportunities for increased oilseed refining in the East.

The food processing sector increased shipments by 3% in the first quarter on a year-over-year basis, led by a 13.1% increase in exports. A major issue remains the threatened US trade actions against the secondary sale of Cuban sugar. Such sugar, refined in Ontario, finds its way into a wide number of domestic products that are marketed in the US and could now be denied entry.

Pulp & paper supplies are tight and commodity prices continue to rise. The value of shipments are up 50.4% in the first quarter compared to the previous year. Newsprint, in particular, has been in short supply as strong Asian demand drove prices upwards in January, with further increases anticipated in June. Plants are working at capacity, with no immediate plans for new production to be added. Profit taking and investment in environmental equipment are taking priority over expansion. Paper box and bag manufacturing, too, is proving to be a growth industry, far surpassing pre-recessionary levels of output and employment during the past two years.

Panelboard and lumber prices have slipped somewhat from the high levels of last year reflecting the poor performance of residential housing starts in North America. With the lower Canadian dollar, however, operations are still profitable and running at near to capacity. There is

little sign of inventory build-up yet. New capacity, in the form of an oriented strandboard mill in Wawa and a flakeboard mill in the Sault, will be added in the current year along with upgraded capacity to panelboard mills in Bancroft and Timmins. Major investments are planned for new facilities in Atikoken and Pembroke. Millwork and prefab housing are increasingly cultivating alternative markets in the US and Japan as domestic markets are weak. Shipments are up 7.1% in the first quarter over the previous year.

While metal prices for gold, silver, nickel, zinc, copper and lead are all off their highs experienced in late 1994, they appear to have stabilized and are providing good returns to the Ontario mining sector. New foreign sources of copper are expected to come on stream this year and could cause further downward adjustment in price. Nickel and zinc demand will be largely influenced by the health of the North American auto sector as international demand is limited by large worldwide inventories of these metals.

The value of primary metal output was 28.3% higher in the first quarter over that of a year earlier, although much of this is attributable to improved prices. Led by a robust steel industry, which has benefitted from a strong North American auto sector, the primary metal sector is quite profitable. The construction-related side of the business, however, has been weak due to poor residential construction activity. Metal fabrication reports strong competition, as the industry still is not operating at full capacity. This, along with customer resistance led by the auto sector, is making it difficult to pass on the higher input costs, particularly for steel, forcing firms to absorb these costs and significantly cut their operating margins. The chemical industry continues to restructure, with significant negative effects on the town of Sarnia where the April unemployment rate climbed to 17.6%. Plastic companies report that they have some success in increasing prices to reflect the increased cost of resins. Within the industry, there has been some slackening of demand. Demand is soft in such areas as housing, sporting goods and packaging, while remaining firm in aerospace and automotive. As with metal fabrication and primary metal activities, there is no significant new hiring and only selective investment taking place, usually related to productivity enhancement.

B. Manufacturing

Domestic automotive assembly increased by 31% in the first quarter over the same period in 1994, as opposed to 5% for North America. Start-up production of the GM's Lumina in Oshawa and Chrysler's NS van line in Windsor were contributing factors. However, some evidence of slowing demand is seen in the temporary closing of some assembly lines in Bramalea and Oakville recently. Rumours persist that Honda is planning a major expansion of its Alliston facility that will double annual capacity to 200,000 cars. This would follow a \$600 million expansion announcement made by Toyota for its Cambridge facility last November. Japanese producers are anxious to move production from Japan to combat the effect of the soaring yen.

Auto parts suppliers are working at close to capacity. Output, to date, is up 17.4% in 1995 and sales are expected to be just under \$20 billion. Significant investment in machinery & equipment is taking place, although it is expected to be somewhat less than the \$1.6 billion of last year. Suppliers to parts manufacturers continue to try to impose higher prices on commodities like aluminum, steel and plastic resin. For their part, auto assemblers are reluctant to accept the passing on of these price increases. For parts manufacturers, caught in the middle, these difficulties are compounded by assemblers' move to downsize their supplier base, which create pressures to be as low cost as possible. However, some added costs are now being reflected in price increases in automobiles. For parts suppliers with collective agreements that expire soon, it is a terrible time to negotiate.

Tool and die business is extremely strong. Driven largely by demand in the auto industry, there are major North American retooling/machinery programs being undertaken that are expected to last in some cases to the year 2000. Investment in plants and equipment, as well as hiring, is taking place in the industry. Challenges include being able to respond quickly enough to new orders and finding qualified personnel, particularly CAD/CAM engineers. Exports are worldwide, although fluctuations in foreign currencies is making it difficult to conduct non-U.S. business. The plastic moulding industry is also benefitting from new product development and strong world demand.

New orders for advanced manufacturing technologies (AMT) are beginning to slow to a more manageable pace, but there remains a substantial order backlog. Additional hiring has been taking place, although the industry is complaining that good skilled trades people are difficult to find. Input prices are moving up as raw material prices and wage demands rise. Moreover, imported components have risen as a result of the devalued Canadian dollar. Attempts to pass on the costs have met marketplace resistance and competition has made it necessary to discount published prices. Construction equipment suppliers have noted some sales growth in the domestic market, particularly in Central Canada.

Among electrical manufacturers, lighting fixtures firms continue to perform poorly, reflecting conditions in the retail and construction sectors. Shipments of small and major appliances, however, are on the increase. Major changes in the distribution of these products is taking place. Big retail box stores are quickly displacing the traditional system of electrical distributors. From an industrial demand perspective, the performance is much better. Electrical industrial equipment and wire & cable shipments grew by 20.7% and 31.1% on a first quarter, year-over-year basis. In general, companies with product mandates and an export orientation are performing very well. Many firms, which had undertaken substantial cutbacks, are now challenged to meet the demand.

Manufacturers selling directly to the consumer market note a further softening of demand. Clothing shows modest growth in the first quarter, but is increasingly specialized and export-oriented. Restructuring and downsizing of domestic retail outlets is having a negative effect on the industry. Job shedding is still taking place. The home furniture industry is slowing, although exports remain strong. Sales of office furniture are improving, both domestically and abroad and reflect improved corporate profitability. The furniture industry, too, has been caught in a price squeeze where increased input costs have been difficult to pass on in a soft consumer market.

C. High Technology Industries

Among high tech industries, telecommunications equipment exhibits only modest output growth, although exports are up 25.1% on an annual basis in the first quarter. The opening up of traditional European markets to Canadian producers is

providing new market opportunities. Far more vibrant is the office, store & business machine sector, where annual growth in shipments of approximately 60% (and of 70% in exports) make this industry one of the fastest growing segments of the economy. In 1994, national computer sales alone grew by 26% to \$2 billion. Since the outset of the recession in 1989, the Ontario sector has recovered all lost jobs and more than tripled shipments and exports. Continued expansion is forecast, with the finding of enough technically trained employees the stiffest challenge. Mirroring this growth is that of packaged software and services. Canada has played a leading role in this market and many industry leaders, such as Alias, Corel and Delrina, are located in Ontario. The financing of these knowledge-based industries and the shortage of technical people remain serious problems. Today, only one half of the 25,000 annual new software jobs created are being met by new computer science graduates.

The pharmaceutical and medicine industry has maintained steady, but very modest growth throughout the last economic cycle. This pattern has not changed. With some softening in the domestic market because of the need to generate health care savings, demand has been affected by hospital consolidations and the signing of long-term supply contracts with large international drug companies. This has been offset by new efforts to export to the US, Mexico and the Far East. Employment in the industry continues to contract and most investment projects are on hold until markets improve. Small and less profitable firms are concerned about proposed cost recovery fees being proposed by Health Canada for product testing and notification. It may have implications on what they can afford to bring to market.

There are approximately 1,500 firms with 30,000 employees in a rapidly expanding environmental protection industry in Ontario. Approximately 10 to 15% of environment service sales and over 25% of product sales are exports, mostly to the US and Europe. While industry firms are typically small, they are expanding and there is job creation. The sector remains optimistic for 1995. It feels, however, that if there was less competition from the public sector, it could grow and diversify even faster. Examples cited include the Wastewater Technology Centre, Environment and Agriculture Departments, the Ontario Centre of Environmental Advancement and the Great Lakes Pollution Prevention Centre.

Good news has emerged from the aircraft industry suggesting that activity is picking up. De Havilland has a growing order book for its Dash 8 aircraft and recently announced plans to boost output from 2 to 3 aircrafts per month. It is also expected to shortly unveil its new Dash 8-400 which will hopefully bring it additional production. Other segments of the industry are expected to ultimately benefit from increased world travel demands. That part of the aerospace industry that is involved with the building of communications satellites is enjoying steady business. The launch of a government-driven space program is hoped to eventually assist other aspects of the business. Like the aircraft sector, the defense electronics industry is very export-oriented. Contrary to the US, the local industry is more commercially-oriented with civilian applications and has not suffered as much because of the end of the Cold War. Since the electronic components segment is one of the few areas of growth in defense work, this industry has been able to stabilize and find ample business in new and refit equipment construction.

D. Services & Construction

Retailers continue to suffer uncertainty at the hands of the elusive consumer. Following a relatively good Christmas, volumes began to fall in March, particularly for semi-durables. Sales of women's and children's clothing, along with automotive parts, accessories and service, however, remain positive. Among durables, household furniture and appliances have led the way, although with cutbacks in residential construction, this could be shortlived. Overall, Ontario department store sales have advanced 7.3% year-over-year in the first two months. Competition remains fierce and sector restructuring that favours mass marketing, box store chains is on-going. Cadillac-Fairview is the latest major victim. Retail bankruptcies are up 5.6% in the first quarter and involve liabilities of \$132 million, a figure that is two thirds higher than the comparable period last year. Retail employment has fallen over the past year, while it has been rising in wholesale.

The outlook for the tourist industry is excellent. During the first quarter, there was an 5.1% increase in the number of Americans making "one or more nights" trips to Ontario compared to the same period in 1994. For other non-residents, the figure went up 13.8%. The lower value of the Canadian dollar also appears to be keeping Ontarians at home. In the first quarter, the number

of residents returning to Ontario from "one or more nights" trips to the US dropped 5.8%. Resorts Ontario reports local tourist bookings are up, but duration of stay are averaging only 3 to 5 days. This is in keeping with the cautious mood of the consumer.

Business services exhibit strong employment growth. The computer services sector is particularly strong with spending on interactive multimedia products and service in Canada alone projected to mushroom from \$2.5 billion to \$30 billion a year by 2000. In terms of employment, there is a significant shift away from computer maintenance to network integration and help desk services. More trained workers will be required. The story is very different in communication services, where deregulation has created a highly competitive environment and many of the large companies, like Bell and Unitel, are undertaking massive layoffs to cut costs. For architects and consulting engineers, demand has been good for those who have converted to the "design-build-operate (DBO)" method of doing business as opposed to straight contracting. It is further enhanced for those working in the international marketplace, which has benefitted from the low Canadian dollar. Notwithstanding these opportunities, the domestic market remains weak and there is considerable underemployment in these professions. Industrial designers are enjoying good demand for their services as increased global competition encourages product differentiation. Alternatively, management consulting remains weak, particularly for those who are not specialized. The sector lacks alternative opportunities in the US as it is a highly competitive market with many industry leaders located there.

The financial sector is performing well with banks, in particular, returning to high levels of profitability. Deregulation and moves into new fields of international finance, like derivative trading, means substantial reorganization within the industry. Demand for consumer credit has been growing recently, while the request for business credit has been modest, but steady. Demand for residential mortgages is down sharply.

There continues to be on-going weakness in the construction industry. Bankruptcies are 38.5% higher in the first quarter compared to the same period last year. The value of residential building permits and starts (seasonally adjusted) were down 19.5% and 4.6% on a quarterly basis. Builders

also report that costs are rising close to historical highs and squeezing their margins. Windsor is one of only a few communities in Ontario where there remains substantial construction. The value of provincial non-residential building permits was up 14.2% in the first quarter, largely as a result of pending institutional construction. While welcomed, it is not likely to lead to new sustainable levels of activity. There are several international developers doing business in Mexico, although the devaluation of the peso has hurt this trade.

OBSERVATIONS

Ontario remains the leading jurisdiction in North America for ISO 9000 company registrations. As of February 1995, the province had 551 registrations, with 21.6% of these coming between November 1994 and February 1995. Three hundred of these fall under the four industry sectors of chemicals, fabricated metals, machinery and electrical equipment.

With the lower Canadian dollar, exporting companies are able to obtain higher margins on their exports to the US than on their Canadian sales. Where product demand is particularly high and output is being allocated, domestic customers are not always being treated equally.

Many private sector companies are resisting the need to hire new employees, preferring to pay overtime. High payroll taxes, severance costs and employment equity make it expensive and create administrative burdens which discourages the hiring

of new employees. Given their more pessimistic outlook for the economy, many businesses also feel that their labour problems may well dissipate in the near future and they should avoid being saddled with new full-time employees.

Collective bargaining activity in 1995 will involve fewer bargaining situations than 1994, but will cover more employees. During the current year, 2,382 collective agreements will expire involving 388,475 employees. The decrease in the number of agreements is due to the Social Contract Legislation. Many public sector agreements have been extended to 1996 when the Social Contract is scheduled to expire. Major agreements coming up for renewal during the summer months include Air Canada maintenance workers and 68,000 primary and secondary school teachers province-wide.

Environic Research reports Ontario's satisfaction with the federal government remains high in the first quarter with 64% of respondents indicating either a somewhat or very satisfied rating. This is the highest rating in the country. Concern over unemployment remains the principal issue, followed by concerns for public debt and general economic performance.

The outcome of the provincial election will impact economic performance. If the Conservatives form the Government, as it appears at the time of writing, layoffs and cuts in government spending, will have negative effects. Alternatively, promises of deregulation, particularly in the labour market, will improve the business environment and produce new investment.



NOVA SCOTIA PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

MAY 1995
SPRING ISSUE

OVERVIEW

Nova Scotia's economic recovery appears to be solidly based in that Nova Scotia had one of Canada's best job-creation records in 1994. However, there was a slip in the first quarter of 1995, the jobless rate moved up to 12.8% in March from 12.3% in February. There has been a 17.5% increase in domestic exports and a 16% rise in manufacturing shipments. Housing starts are up 44% while retail sales remain slow.

Tourism will continue to be strong in 1995, aided by the G-7 Summit, the 250th anniversary of the Fortress of Louisbourg and the province's two new Casinos. Some are predicting that tourism spending may break the \$1 billion barrier. Solid growth is reported in the forestry and related product manufacturing activities.

INDICATORS

Exports continue to fuel growth, with January 1995 figures 32% above January 1994. Although exports through the Port of Halifax decreased 26.8% from the same period in 1994, this is due to the slowing demand for gypsum as the U.S. housing market decreased.

There were 3,096 new business incorporations during the first quarter of 1995. For the same quarter there were 85 bankruptcies, up from 64 the previous year; the majority of these were in construction, fishing and trapping and the transportation and storage industries.

Nova Scotia has performed much better than expected in its deficit reduction. The current account deficit for 1994/95 was \$200 million less than expected, and is forecast to drop to less than \$30 million in 1995/1996.

MOOD

With the plans to open two new casinos in the province and the assurance that the government will receive \$25 million for each of the first four years of their operation, the long-term public opposition appears to have levelled off. One-third of Nova Scotians strongly favour casinos while more than six in ten somewhat or strongly oppose it. Those who are in favour of casinos continue to do so for economic reasons: because of the jobs they believe it will create.

Those who are opposed are concerned about the potential social impact. Specifically, that addiction to gambling will become a problem and that crime will increase.

Nova Scotia put forth a very quiet budget, one that has been described as kind to business but void of any real relief to major economic concerns such as investment and job creation. The government announced no new or increased taxes and plans to continue the downsizing of the public sector.

The forestry industry continues to be concerned that no agreement has been reached on continuing the Cooperative Overseas Market Development Program. The sawmill sector and provincial governments in the region see this as being vital to



ensuring the sawmill sector interests are protected in Europe.

The sawmill sector is also concerned with the Consultative Process on Softwood Lumber currently underway with the U.S. Industry leaders in the region fear that the U.S. industry is planning another attempt to revive the countervail duty issue and that by being at the table the region may not be considered for the exemption it previously experienced.

There have been complaints about TAGS being a disincentive to trained workers accepting available employment in the fishery.

KEY SECTORS

Manufacturing

The performance of Halifax Shipyards, under the management of the Irving Group, is impressive. Work on the MCDV (Maritime Coastal Defence Vessels) contract is actually running ahead of schedule and a good level of ship repair activity keeping things humming at Halifax and DMS (Dartmouth Marine Slips).

Technology

There are mixed reviews on the state and outlook of the Information Technology sector provided by a range of firms in the industry. Some are growing and expanding in response to improvements in world markets but others see the situation as stable or declining. Moves by firms such as Positronics signing a distribution agreement with a major firm like Spectrum Holobyte are felt to be a positive sign for other local IT firms looking to market in the U.S.

Those in the content development activity applauded the provincial support for a new sound studio which will help expand the film and multimedia markets. Others expressed concern that, despite individual success, overall growth in the sector is not as fast as other parts of the world and are hence losing ground. They would argue for expanded commitment to the growth of the IT sector.

A March 1995 report by Peat, Marwick, Thorne entitled "A Comparison of Business Costs in Canada and the U.S., prepared for the U.S. Trade and Investment Division of the Department of

Foreign Affairs and Internal Trade, identified Halifax as the most cost effective city to establish a business. The comparison study spanned fifteen cities and seven sectors.

With the wonders of Internet there is a positive attitude toward growth by the public at large. There continues to be new business growth in the Internet-provider side of the business.

Digital Image F/X is in the process of establishing Canada's first facility to test and investigate Virtual Reality (VR) within industrial applications. Currently, they are planning to co-develop VR surgical applications with Dalhousie Medical School.

The NE50 Digital FM Exciter, developed jointly by Applied Microelectronics Inc. (AMI) and Nautical Laboratories Limited (Nautel) was named "Hot New Product" by Radio World at the National Association of Broadcasters (NAB) trade show in Las Vegas. An Exciter is an important component of a broadcast transmission system.

InNovacorp is expected to bring tremendous benefit to Nova Scotia's technology community. Federal support will assist in creating the required critical mass of resources to enhance commercial development and marketing of provincial resources.

Services

The Association of Private Trainers and Career Colleges of Nova Scotia recently established a "code of professional conduct".

The firms that market locally appear more optimistic, although unlike the export orientated firms they have not begun to increase staffing levels, R&D expenditures or increase partnering in international markets through joint venturing or staffing.

In a period of change private sector firms report an increased understanding of the benefits of training, however, this is largely limited to larger companies. In the past, much of the training activity has been directly or indirectly funded by the government through Regional Industrial Training Commission's (RITC), student loans, etc. Cuts in these areas are therefore having an effect on the industry albeit creating opportunities for certain types of trainers as decreasing available

funds are diverted towards retraining the unemployed.

Consultants report a very large growth in small "boutique" management consulting firms the last few years. The result has been a dramatic shift in the entire management consulting industry towards small specialist firms rather than large national and international firms.

There is increasing competition from the public sector i.e. Nova Scotia universities and colleges who are targeting corporate markets, and the ITT Sheraton arrangement with the community colleges to train for the casino jobs.

Resource Industries

Forestry

Nova Scotia newsprint mills are working at capacity, "Things are so busy that we didn't even shut down for Christmas and New Year. Last year, we didn't know if one of our two mills would survive," says Patricia Diets, Corporate communications manager for Stora Forest Industries in Point Tupper.

Minas Basin Pulp & Power Company Ltd. will create 50 jobs with a product line expansion that will see the Hantsport company make lightweight linerboard from recycled corrugated cardboard. Another 50 jobs will be created by associated companies in the recycling industry. The expansion will see capacity increase from 30,000 tonnes to an eventual capacity of 80,000 tonnes per year.

In the wood products sector there has been a drop in confidence with regard to future prospects. Industry executives are expressing their concern that the sector is returning to lower prices and a move volatile environment.

During 1994, production in the Maritimes reached 1.22 billion board feet with only 5% being shipped outside North America. This is down from the 22% shipped in 1992.

In cooperation with the private building materials sector in Atlantic Canada, the four Atlantic Provinces, DFAIT, ACOA and Industry Canada, an initiative called Japan Building Products Initiative Atlantic Province Program will see the private sector construction of four model homes,

one representing each of the Atlantic Provinces. These homes will be used at a major Japanese home show to promote building materials from the region. Working with a building material consolidator who represents a group of 86 Japanese builders this project should enable small- and medium-sized producers in the region to take advantage of a market cooperatively that they might not be able to handle individually.

Environmental Service Firms

The mood is increasingly optimistic, particularly among export oriented firms. The domestic market is seen as soft and slow to adapt to, or accept, new or different technologies and processes. In recognition of this, firms see the opportunities in international markets, with change coming in the domestic market as the economy picks up. Some firms indicated an increase in contracting out by producers in the region to take advantage of a market cooperatively that they might not be able to tackle individually.

The Maritime Lumber Bureau indicates that initial production reports for 1994 appear to indicate that production was up approximately 20% in the region over the 1993 figures.

Aquaculture

Fisheries exports in 1994 improved over 1993. The strong shellfish markets have meant higher price levels for fishermen which in turn creates more economic spin-offs in communities. The harvesting sector of the ground fishery is experiencing great difficulties, although conversely, many fish processing plants are remaining profitable. The overall outlook is positive.

This sector is very competitive but there is a strong demand for shellfish as most of the world recovers from the recession. Businesses complain of increased difficulties in making any margin on products and the extreme competition. There has been a lot of discipline imposed on their operations by lenders and these competitive forces.

National Sea products has reported its first profit since 1987. This success was mainly due to lower operating costs and new product launches. The company has been concentrating on higher value-added products.

Nova Scotia
May 1995

- 4 -

There is a new shrimp-peeling plant in Mulgrave, owned by the Faroese company. The new plant will create 25 jobs and be supplied by two modern trawlers.

Richmond Fisheries of Petit de Grat closed causing 300 people to lose their jobs.



NEWFOUNDLAND PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

MAY 1995
SPRING ISSUE

OVERVIEW

Since the beginning of the fishery moratorium in 1992 there has been a growing dualism in the Newfoundland economy between fishery dependent rural communities and the rest of the economy. The deepening crises in the fishery has resulted in 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. Higher levels of unemployment, increases in the number on welfare rolls, slower economic activity and increased out-migration to urban areas on the island or the mainland will continue over the next few years.

The impact of these trends on rural Newfoundland can already be seen. Statistics Canada reports a net out-migration of 5,000 in 1993/94 and an estimated decline in population in 1994 of about 6,000. They are projecting even greater population losses over the next few years. From April 1994 to April 1995 the total labour force declined by 7,000. The impact of these trends can be seen in the slow retail sales growth and the decline in purchase of new automobiles and other consumer durables.

However, other sectors of the economy have seen a turnaround in activity over the past eighteen months. There have been increases in newsprint production as well as mining extraction and exploration as a consequence of the general North American recovery. Activity on Hibernia development has also been a major source of

growth. 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 1995 is expected to be about 0.6%. Some forecasters such as the Conference Board of Canada are projecting a negative rate of growth for 1996.



Recovery in the non-fishery dependent sectors of the economy have resulted in increase employment levels. The seasonally adjusted unemployed rate was 18.2% in April 1995, compared to 20.2% in April 1994.

The economic outlook in the near and medium-term will 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) project developments resulting from the recent increases in mineral exploration; (4) environmental problems and projected resource shortages in the newsprint industry and, (5) the financial weaknesses of the provincial government.

INDICATORS

New residential construction in the first quarter decreased by 23.5% from the same period in 1994.

New motor vehicle sales in the first quarter of 1995 were down 19.2% from the levels of of the first quarter of 1994.

Please acknowledge source of information when quoting material from this report.

Business and personal bankruptcies continued to increase, and at the end of March 1995, were 221 compared to 201 in 1994, an increase of 10%.

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.

In their second quarter survey Corporate Research Associates reported that their consumer confidence index for Newfoundland remained essentially unchanged from the previous quarter recording an increase of only 0.2%. They report that public satisfaction with the Provincial Government increased again in the second quarter reaching its highest level since the first quarter of 1994.

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.

Services

The performance of the service sector continues to be mixed. There are now several more negative indicators such as declines in the purchase of consumer durables such as automobiles and furniture. There also continues to be weakness in areas that rely on selling goods and services to the fishery. These trends are expected to continue through 1995 and into 1996.

Revenues from tourism/travel increased in 1994. Non-resident activity increased by 5% and revenues by 6%. Tourism activity is forecast to increase by 2% in 1995.

Resource Processing

Fishing: 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.

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.

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.

A major new minerals find at Voisey Bay in northern Labrador is expected to be developed over the next few years. The estimated capital cost of this development is \$300 million.

Offshore oil: 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. Several modules have been delivered from overseas suppliers and link-ups with the platform will take place later this year.

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: The provincial government is proceeding with implementation of the Economic Diversification and Growth Enterprises (EDGE) legislation and interest in investing in the province under these incentives is growing.

The regulatory reform initiative is now scheduled for implementation in the fall of this year.

The provincial budget brought down in March forecast a balanced budget for 1995/96. However, the province expects to have difficulty balancing the budget for 1996/97 and 1998/97 as a result of changes in transfer payment arrangements announced in the federal budget.



NEW BRUNSWICK PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

**MAY 1995
SPRING ISSUE**

OVERVIEW

Statistics Canada recently reported that New Brunswick's gross domestic product grew 1.7% in 1994 from the year before. The Conference Board is predicting, however, that New Brunswick will lead the Atlantic Region in GDP growth of 2.4% in 1995, and again in 1996. Outstanding export performance in the resource sectors, particularly in pulp & paper, mining and agriculture, continues into the second quarter. It is expected to offset losses in public service jobs and diminished residential construction activity experienced so far in 1995.

All indications point to a repeat of last year's record breaking performance in the tourism sector as the low Canadian dollar keeps vacationers at home.

While business investment activity appears positive, consumers continue to exhibit lower confidence manifested in declining retail activity.

INDICATORS

The 1.7% growth in the province's GDP for 1994 compares unfavourably with national GDP growth of 4.2%. An Atlantic Provinces Economic Council (APEC) economist points to a couple of factors contributing to the low GDP growth. One such factor is that "construction projects and other investment activity generally have a big impact on GDP." In 1994, non-residential construction, with the exception of highway construction, was very low. Added to this were declines in shipbuilding activity and losses in public sector employment. Another major contributing factor is the lack of consumer demand, which according to APEC,

represents "about half of the economic growth measured by the GDP." This demand revealed growth of 1.4% in the province, less than half the growth in demand for Canada's GDP at 3.1%.

As Central Housing and Mortgage Corporation's "First-Time Buyer" program begins its third year of operation, the number of new applicants continues to tumble. This, combined with high vacancy rates evident in the multiple unit buildings

of the province's larger cities, has resulted in a downward revision of CMHC's estimated 1995 housing starts, from 3200 to 2900 units. As offspring of the "baby-boomers" leave home, a noticeable "move-down" trend to smaller, less costly, easily maintained housing is beginning to emerge and can be expected to pick up momentum in the long



term.

HRD Canada reports that in actual terms, employment went up in April 1995 by 14,000 jobs (13,000 full-time), representing a 5% increase from April last year. The seasonally-adjusted unemployment rate of 11.8% in April is down from 13.3% in April of 1994, despite a slight rise in the participation rate.

StatsCan reported in February 1995 that the number of U.I. beneficiaries (42,000) in this province, declined by 14.1% from a year earlier. Between February and March the seasonally-adjusted help-wanted index for the Atlantic Provinces went up 3% but in April registered a decline of 3%, consistent with all regions of the country which registered declines in this labour demand index.

Manufacturing shipments were up in the January-March/95 period by 20.3% from the same period a year earlier while exports over the first two months of 1995 recorded a 37% increase compared with the same period in 1994. The forest products sector, especially pulp & paper production, is largely responsible for the dramatic year-over-year rise.

Business bankruptcies in the January-March period of 1995 rose by a mere 2% compared to the same period of 1994. New business incorporations under the province's Business Incorporations Act also increased by 2% on a year-over-year basis to the end of March.

MOOD

High interest rates and job security continue to dampen consumer demand, evidenced in part by a steady decline in retail sales. The retail sector has recorded a first quarter decline of nearly 3% compared to last year. The number of new motor vehicle sales are down some 12% in the first quarter of 1995 compared to the same period of 1994.

CMHC's analyst points to tough federal and provincial budgets adversely affecting consumer confidence in the housing sector. The lack of confidence is revealed not only in the lower number of new starts, but in the marked increase in renovation activity.

While housing starts were down some 51% during the first quarter of 1995 over a year earlier, non-residential construction has recorded close to a 60% increase over the same period compared to 1994 - an indication of reasonably strong business confidence. In view of current prices, the forestry and mining resource sectors are signalling substantial capital investments during 1995. In the forestry alone, more than \$1.4 billion in investment activity is planned.

KEY SECTORS

Manufacturing

The manufacturing sector is performing very well as the province's resource sectors lead the way. According to Gerald Cluney of the CMA, "manufacturing contributes to 52% of the province's GDP". The costs of production, particularly payroll costs, and taxes continue to be

high and are a constant concern in terms of firm competitiveness and profitability. While "wage settlements, generally speaking, are not high, the benefits side of the package have added considerable costs to the manufacturer" says Mr. Cluney.

Services

The winter tourism season was one of the most successful to date largely due to a developing snowmobile product. In addition, the above-average snow accumulations in the northern section of the province aided in creating ideal conditions for downhill and cross-country skiing. The outlook for the summer is excellent with expectations for at least a repeat of last year's record breaking season. The \$676 million in revenues generated in 1994, represented a 9% increase over 1993.

The province has received almost 65,000 enquiries through its 1-800 line over the first quarter of 1995, an increase of about 47% over the same period a year ago. At the Atlantic level, the Atlantic Canada Tourism Program has already generated 68,000 qualified enquiries while last year, only 40,000 enquiries were recorded during the entire season. In addition to the low Canadian dollar, the involvement of the private sector in designing aggressive, targeted marketing campaigns are cited as key factors behind the early optimism of tourism operators.

A consulting firm is presently finalizing a survey of the Atlantic Region's **commercial education and training** sector. The analyses provided by the survey is intended to lay the groundwork for provincial and regional-level strategies for this growing sector. Similarly, a highly successful New Brunswick survey of the **consulting engineers** has been extended to the other Atlantic provinces to diagnose the needs of the sector and enable the development of medium-term sectoral strategies. The consulting engineer firms are increasingly searching for possible opportunities in international markets as the number of projects in a very competitive domestic market has waned in recent years.

Resource Industries

The **shellfish fishery**, consisting mainly of lobster and crab, is underway in the province's northern regions. Both fisheries report good landed volumes

this year and excellent prices. The high prices to fishermen will mean higher prices to processors and eventually for consumers. It is premature to determine if the high prices can be sustained or whether the market will eventually meet consumer resistance as it did in 1989 when high prices resulted in large inventories within local processing plants.

Forestry's **pulp & paper** sector has seen prices soar in 1995 for virtually all of its products. The \$1.4 billion of investment planned for 1995 in this province is evidence of a longer term commitment by some major forestry companies like MacMillan Bloedel, Noranda, Avenor, Repap and Irving to upgrade, refit and build new mills. Such investment inevitably means greater efficiency in the forest products industry as well as fewer, but perhaps more secure, jobs as direct employment in the industry has declined from 16,000 to about 13,000 jobs over the past ten years. Silviculture efforts, thought to be a radical move by the Irving company in the 1950s and 1960s, has enabled the province to sustain its forest resource, the vital wood supply critical to maintaining the viability of forest product companies.

Over twenty Atlantic Region wood product firm representatives (17 from New Brunswick) are currently visiting Germany's Interzum and Ligna shows looking for new product and process ideas to enhance their competitiveness.

The **mining** sector has turned around with world market prices creeping upward. Brunswick Mining & Smelting has recorded a profit for the first quarter of 1995 and is optimistic about future returns in 1995. Peat production in 1994 was up 5-6% over the previous year and is anticipating another excellent year in 1995. Both of the province's potash mines are currently operating at full capacity as world demand has picked up. The provincial Department of Natural Resources and Energy is currently undertaking a high-resolution, airborne survey of the northern portion of the province to assess the possibility of further metal ore deposits.

High Technology

A **geomatics** business network has just returned from South America with excellent opportunities for partnership and immediate project bidding.

The **Information Technology Alliance** of New Brunswick was given a \$500,000 kick start under a federal/provincial cost-shared agreement and a new executive director has been appointed.

Provincial government priorities include aggressively promoting the adoption of ISO quality standards within the province's **electronics/electrical** sector. Although the provincial government was one of the first in Canada to promote a Quality Assurance program, many firms which adopted quality assurance moved to the documentation stage. At this stage, the effort on quality management stalled. The province has recognized that it will take a sustained effort to overcome firm resistance in order to address the new imperative for ISO certification now demanded by domestic as well as foreign buyers.

OBSERVATIONS

Pat Valardo, President of the Tourism Association of New Brunswick, in speaking of the prospects for the 1995 tourism season stated: "It's extremely positive, more so than last year. Traffic is up already in our motels and hotels. The trickle is happening in May as opposed to June."

"New Brunswick is poised to reap the benefits resulting from its laying the infrastructure necessary to make the information highway and the IT sector key drivers in growing the economy" says Guy Rossignol, the newly appointed Executive Director of the New Brunswick Information Technology Alliance.

New Brunswick had the first digitized and most detailed GIS system of its kind in Canada for allowing the government and forest companies to determine the exact inventory of the land and to make accurate forecasts of timber supply. It is an enabling system, operating in the long-term interest of all parties:

"New Brunswick is a world leader in the use of that tool in forest management...it's the best inventory control in the country, bar none. Nobody else even comes close," said Dr. Gordon Baskerville, former provincial civil servant and now a professor at the University of New Brunswick.

A recent study by HRD Canada economist Samuel LeBreton, examined why new businesses

were establishing in some areas of New Brunswick and not others. In so doing, he profiled the various regions of the province in terms of the average level of education obtained. In his conclusion to the study he stated:

"It is very clear that the education factor alone cannot explain an employer's decision to go into a particular area, but neither can we stick our heads in the sand and ignore the fact that this factor is ever increasingly becoming a deciding one in hiring employees and choosing a location.

Microsoft, the world's leading software company (\$1.6 billion in sales this fiscal year) has just announced that the province has been chosen as its first test site in Canada to train people through long-distance education on its new, on-line, multimedia network. As a result, New Brunswick will be "at the forefront of what's happening in the world" according to Ian Grant, Managing Director of the Yankee Group in Canada, an international consultancy firm which follows trends in the telecom and computer industry.

In its March 1995 "Report Card" on Atlantic Canada's recent export performance, APEC prepared a chart entitled, Benchmarks of Exporting, All Provinces in which New Brunswick ranked *third* in the nation in terms of exports per dollar of GDP (almost 24 cents out of each dollar of GDP are generated from exports) and *fifth* in terms of exports (dollars) per worker. (The report deals only with trade in goods).

" Well-known author and speaker Laurier Lapierre, in Moncton recently, as guest speaker at the annual meeting of the Chamber of Commerce. He warned that Canadians are going to lose their dreams and successes because they "are becoming increasingly worried about hoarding their own wealth, erecting barriers between regions and provinces, and fussing over deficits, debts and a cycle of negativism....the federal government, under pressure, is handing more and more power and responsibilities to the provinces, and that will cause further separation of the country's regions...we're headed in the opposite direction from the dreams and goals of our ancestors who believed in a strong, united, harmonious nation."



MANITOBA PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT MAY 1995 SPRING ISSUE

OVERVIEW

Manitoba's economy in 1994 expanded at its highest pace since 1984. The Manitoba Bureau of Statistics (MBS) estimates that Manitoba's Gross Domestic Product (GDP) at Market Prices grew by 5.3% to a level of \$25.8 billion. In real terms, provincial GDP rose 2.6% in 1994. Although still lagging behind the national growth rate, this is positive news to a province whose real GDP has been virtually flat since the mid-1980's.

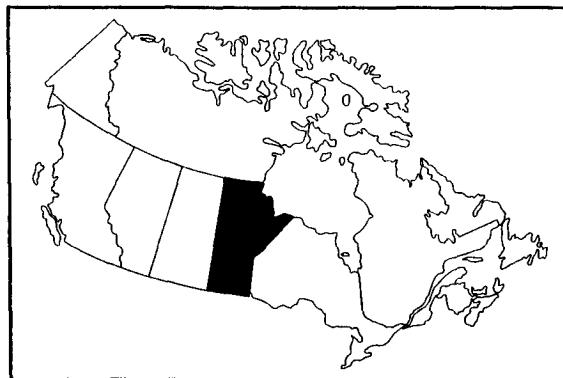
Early indications are that expansion is continuing into the first quarter (1995) based on the strong performance of the manufacturing, construction, and mining sectors. Although much of the growth continues to be export-based, firms report that the share of domestic orders is increasing.

Unlike 1993, in which growth was completely export-led, growth in 1994 appears more broadly based. Both consumer and business spending increased in 1994 (4.6% and 7.5%, respectively) contributing to economic growth.

Private sector forecasters are expecting real growth of 3.0% in 1995. However, more modest gains may occur as a result of the completion of infrastructure program projects, anticipated changes to the province's agriculture base, declining commodity prices, and reduced public administration output due to government restraint. Although firms to date have not reported a slowdown of orders to the U.S., another variable may be the dampening of demand for Manitoba products stemming from a sluggish U.S. economy.

On April 25, Manitobans re-elected the Conservative government of Gary Filmon to a third consecutive term.

The Filmon campaign hinged on continued corporate and personal tax freezes, and continued fiscal restraint through deficit reduction and balanced budget legislation. The Conservatives also gained some degree of media and public support by being the only party willing to commit public funds to saving the NHL-franchise Winnipeg Jets.



INDICATORS

For fiscal 1994-95, Manitoba reported a base of 45,111 active registered incorporations, up 2.1% from the previous year. This is the largest increase in active incorporations since the 1980's. In the first four months of 1995, the province registered 1,081 new incorporations and 2,935 new business names.

First quarter Manitoba insolvency statistics show 60 business and 812 consumer bankruptcies. Although this represents a 39.5% and 40.9% increase over fourth quarter business and consumer insolvencies, respectively, it matches the trend of a year earlier. Overall, on an annual basis, the number of provincial bankruptcies is declining. From its peak of 131,160 in 1992, bankruptcies in 1994 declined 35.3%.

Year-over-year statistics for the first quarter show Manitoba's labour force increased 2.4% to 521,000, slightly above the national average of 2.3%. In the same period, the provincial participation rate declined by a marginal 0.9% to

66.3%. This is the second highest participation rate in Canada and ranks ahead of the national rate of 65.1%. The unemployment rate also declined significantly by 25.5% to 7.3%. At 7.4% in April 1995, Manitoba maintains the second lowest unemployment rate in Canada and ranks well below the national rate of 9.4%.

Manitoba foreign exports increased by 28.7% in 1994. In particular, exports to the U.S. -- which account for 73.8% of all exports -- increased 32.0%. The growth leader in terms of manufacturing shipments was the machinery industry which grew by 63.0%.

Investment in the province grew 3.4% in 1994. Much of this was fuelled by the infrastructure program which served as the catalyst for private and public sector investment. Investment in construction rose 9.6%, while investment in machinery and equipment declined 4.0%. Private investment accounts for all the growth increasing 7.8% over 1993 levels, while public investment declined 4.9%. The February 1995 survey of Public and Private Investment Intentions (Statistics Canada) forecasts capital investments to surge 12.0% in 1995.

Retail sales rose 4.6% in 1994. Although below the national average of 7.0%, this represents the province's best year for retail sales since 1985. First quarter statistics indicate sales are continuing to grow at a similar pace (4.1%).

Manitoba has been somewhat of an anomaly the last three years with respect to housing starts and sales. In 1994, for example, housing starts in Manitoba increased by 32.0% while national starts fell 0.9%. Similarly, Multiple Listing Service (MLS) sales of existing homes increased by 2.0% in comparison to national MLS which dropped by 0.9%. However, preliminary data for the first quarter indicates housing activity in Manitoba has declined owing to early interest rate concerns. Canada Mortgage and Housing Corporation is forecasting a 12% decline in housing starts in Manitoba for 1995.

MOOD

Uncertainty over interest and inflation rates in the first quarter of 1995 has dampened the positive outlook shared by consumers throughout 1994. Consumer confidence declined for the first time since late-1993 according to a recent survey by

Prairie Research Associates. Concern over declining disposable income, slow job creation, and government spending and deficits rank as key consumer issues.

While job-related concerns influenced the consumer index in the past, over 42% of households expressed concern about declines in personal income (i.e. increases in the cost of living). Although preliminary data indicates Manitoba personal disposable income increased by 2.2% in 1994, compared to 2.3% for Canada, Manitoba has posted some of the highest consumer price index (CPI) increases in the nation: (e.g. 2.5% in March and 2.7% in April).

By comparison, business remains optimistic. In a recent survey of Manitoba firms by the Canadian Federation of Independent Business, over 56% expect the economy to improve while only 5% expect it to worsen.

A recent survey by Manpower Temporary Services examined Winnipeg firms' second quarter hiring intentions (i.e. April - June/95). The survey shows 32% of firms expect to hire additional staff while 15% plan to cut back. Three months earlier, the survey indicated that only 17% of the firms expected to hire, while 26% planned on scaling back staff.

KEY SECTORS

Manufacturing

The manufacturing sector continues to grow on the strength of the U.S. and Canadian economies. For the remainder of 1995, the Conference Board of Canada is anticipating strong performance with growth of 6.2%. Manufacturing investment is expected to rise 48.0% in 1995 after increasing by 44.0% in 1993 and declining by 14.0% in 1994. Although domestic shipments are expected to rise, the growth in 1995 will again be export-led.

In 1994, foreign exports rose 28.7%, with the machinery industry (63% increase), plastics industry (25%), beverages (21%), paper and allied products (19%), wood products (16%), and primary metals (14%) industries providing the largest percentage gains from 1993 to 1994.

In terms of export destinations, the value of shipments to the U.S. in 1994 increased by 32.0%, China (62.7%), Germany (84.0%), Mexico

(35.7%), France (67.0%) and Japan (13.8%).

Manitoba's aerospace industry continues to suffer from the world-wide downturn in the demand for aerospace products. Reduced defence spending and the global economic downturn have contributed to the loss of about 1,000 aerospace jobs. Of the 26 companies that constitute Manitoba's aerospace industry, hardest hit were the larger firms such as Bristol Aerospace, Paramax Systems Ltd. and Boeing Canada Technology Inc. On a positive note, the downturn has forced most of the smaller firms to diversify by converting production away from military to commercial ventures.

Agriculture

Agriculture in 1994 was the primary factor in fuelling provincial growth. In particular, a record canola crop combined with soaring world prices created an exceptional year for the agricultural sector. Overall, crop receipts climbed 11.0% to a record high. Cereal grains and oilseeds account for 25.7% of Manitoba's \$4.7 billion exports.

It appears unlikely that 1995 will be a repeat of 1994: a late spring has greatly affected seeding and likely crop yields, and the recovery of global stocks will reduce market prices. More important is the impact of losing the Crow grain transportation subsidy. The increased cost of shipping grain to ports will encourage producers to shift farming strategies. Many producers are viewing the loss of the Crow as an opportunity to move into other ventures such as livestock production. The impact of losing the Crow will also depend on how Ottawa allocates the \$1.9 billion compensation fund among prairie farmers.

Northern Manitoba appears poised to benefit from improvements to the minerals, paper products and tourism sectors. A rise in world metal prices combined with new deposit discoveries led to a recovery of the mining sector in late 1994. In addition, exploration activity increased 33% over the previous year owing to a 72% and 66% increase in nickel and copper prices, respectively.

The pulp and paper sector has been aided by a reduction in surplus capacity of newsprint in Canada, a 2.5% increase in North American demand, and an increase in off-shore demand which has resulted in newsprint prices jumping from \$400 US a tonne to \$600 US. The industry is expecting 1995 to mirror the performance of 1994. Exports of paper products in 1994 increased by almost 20%.

OBSERVATIONS

Learning to Implement the "P-Word" in Manitoba

Al Kennedy, a key adviser to Premier Ralph Klein's government, was in Winnipeg to provide senior Manitoba government officials with a crash course in privatization. However, rather than using the "P-word", Kennedy's preference is to make reference to "strategic alliances and partnerships between the public and private sectors".

Integrated Prairie Policies and Institutions?

A recent survey by the Canadian Federation of Independent Business discovered that a "sizeable majority" of business favoured integrating key prairie institutions and policies in order to reduce government expenditures and red tape. Business favoured the creation of a single health care system, a common education curriculum, a single Worker's Compensation Board, and uniform labour legislation and environmental standards common to the three prairie provinces.



BRITISH COLUMBIA PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

MAY 1995
SPRING ISSUE

OVERVIEW

While the B.C. economy shows some signs of reaching the turning point in the business cycle, it is still forecast to grow at just over 3% for 1995. Key factors are rising interest rates, a slowing U.S. economy and B.C. housing starts down 26.3% over the first quarter of last year. The export boom, now four years old, is levelling off, but exports for January were still up 33% (over January 1994), led by lumber, pulp, copper and chemicals.

Manufacturing shipments in February appeared to be slowing, but were still up 15.4% over February 1994. February retail sales were up 9.6% over last year.

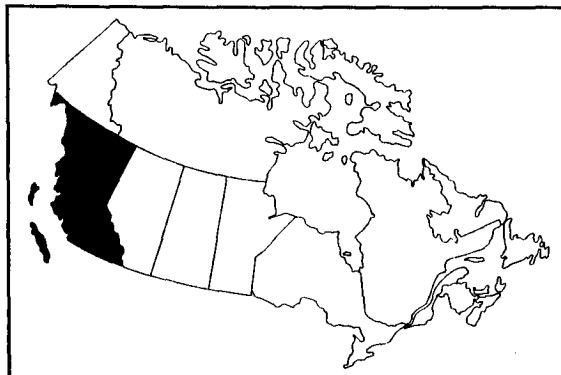
In the last year, employment has outstripped growth in the labour force to the extent that unemployment in

April was almost 2 percentage points below April 1994 levels. Province-wide, the unemployment rate was 8.7%, down from 9.0% in March, with 4,000 fewer people looking for work. Overall, first quarter employment growth looks positive but three of the past four months featured flat or negative growth. Regional differences persist, with unemployment in Vancouver averaging 8.8% between January and March, but 13.2% in the Thompson-Okanagan region and 11.5% in the Cariboo. Part-time work accounted for half the jobs created in the province in 1994, compared to 4% Canada-wide. The high unemployment rate over the last decade and growth of part-time work made per-capita real income less in 1994 than in 1990, despite the much stronger economic performance in 1994. Retail sales are running ahead of income and employment, but we can

expect to see some correction here over the next four quarters.

B.C. now gets over a fifth of all immigrants to Canada, with 48,529 immigrants in 1994, up 7.8% over 1993. Asia supplies nearly four-fifths of these, with Hong Kong, India and Taiwan contributing more than half. Immigrants in the Investor, Entrepreneur, Self-Employed and Skill Worker categories now make up 26% of B.C.

totals, compared to 21% in 1993 and 15% back in 1984. B.C. received 60% of Canada's total of Investor immigrants in 1994. Net in-migration is predicted to decline, reaching about 70% of 1994 levels by the year 2000, with half coming from outside Canada.



In late May, the province tabled its Employment Standards Act, setting

employment and compensation standards in the workplace. Provisions include interest charges payable to workers on unpaid wages and fines for repeat offenders. It also establishes an independent appeals tribunal, and allows for expanded use of the compressed work week, but does not provide for extending benefits to part-time workers. The Coalition of B.C. Businesses, citing the costs of regulatory and paper burdens, wants the Bill withdrawn.

INDICATORS

B.C. exports dipped below their January level, but were still 24% higher in February than in the same month of 1994, driven by sharply rising shipments to Asia and Europe. Shipments of agricultural

products were up 66.4%, and industrial goods up 63.7%, while B.C.'s mainstay, forestry products, were up 27.1%. Shipments of manufactured goods are showing a similar pattern, somewhat down between January and February but still up 15.4% over February 1994.

A 10-year increase of 83% has occurred in exports of B.C. services, to \$3.3 billion in 1993. Between four and five thousand Vancouver professionals -- e.g. legal, accounting, engineering, commercial training, environmental -- do business globally. Six years ago, Vancouver was made an International Financial Centre (IFC), where tax breaks are given on income from certain offshore deals. Direct gains to IFC members have been only about \$4 million, on international business of above \$5 billion, but bankers say that the IFC designation has helped bring more sophisticated service business Vancouver's way.

New incorporations plummeted in February compared to the high levels of February 1994; the year-to-date decline is 31.4%. Business bankruptcies in the first quarter were up 28.7% over 1994 levels; consumer bankruptcies were down slightly (1.5%).

The number of social assistance recipients in the province grew 4.3% during the 12 months ending in February. One-tenth of B.C. residents received income assistance or supplements in February.

Retail space vacancies in Vancouver fell nearly two percentage points during the past six months to 3.5%. Lease rates for space are stable. Big box retailers, discount stores and boutiques had healthy growth last year, but department store sales fell another 2.5% last year, after a 16.2% decrease in 1993.

Real estate is directly responsible for 140,000 construction jobs in B.C. (double the level of a decade ago), and at least another 50,000 among realtors, bankers, designers, lawyers and architects. Housing starts fell by 7.9% in 1994, and are forecast to fall another 12-18% in 1995. Declines in the value of non-residential building permits have been less sharp, but there has been little growth in commercial property market values in the last four years.

Progress on land claims may be shelved until after the election; the Province seems aimed at a less idealistic and more 'rational' approach to negotiations. With banks shortly to be able,

finally, to hold title to aboriginal property until a loan is paid off, they are busy hiring or partnering with First Nations people. For example, the Royal Bank is going into education, teaming with Simon Fraser and the Musqueam band to establish a business studies program. These developments could ease investment climate concerns.

Despite all the incoming retirees, B.C. has ceded top place to Quebec as the province with the highest median age, 35.3 years there; 35.1 here. But youth obviously isn't everything. Four out of ten students polled by a newspaper at a B.C. high school in early May did not know that Jean Chrétien is the Prime Minister.

MOOD

B.C.'s April budget retained the corporate capital tax despite the Premier's promise to drop it when the budget was balanced. Also worrisome was the Province's apparent lack of planning to deal with the drop of \$800 million in federal government transfers by 1997-98, and the looming cost of Native land claims.

Business conditions are sound, sustaining strong corporate profits despite recent declines in lumber and natural gas. Improving profits won't generate more jobs since resource firms are close to capacity. Conference Board confidence index showed its largest drop in B.C. - and housing starts show similar relative declines. With no real income growth and shaky consumer confidence, retail will decline. So it's a picture of growth, hope and anxiety all mixed together.

KEY SECTORS

Resources:

Forest Products:

As lumber demand softens under pressure of falling housing starts in the U.S. and Japan, there is renewed caution in the sector. Continuous policy changes affecting the sector (e.g. changing rules governing supplies and access to timber supply) are greatly affecting the large and small solid wood sectors. Corporate takeovers to secure larger volumes of wood resources (logs and chips) are creating a very unsettled atmosphere, especially in view of the fact that the forestry Ministry has a final approval of these takeovers. Many B.C. firms are now looking elsewhere for expansion potential (Alberta, Ontario, U.S., Mexico). Coastal

producers will face a drop in demand for green lumber due to changing market conditions in Japan and a corresponding housing decline. Demands for quality kiln dried material still remains high. The sector also anticipates ever-increasing constraints due to fiber supply. This dampens domestic investment spending while stimulating the search for potential foreign supply. Overall, the manufacturing sector of the industry is not investing in B.C. but elsewhere in Canada, U.S. and Mexico where more favorable investment climates exist. Meanwhile, the timber supply crunch won't be as large as originally forecast in certain central northern regions, but these regions are still relying on timber supplies from the Yukon, Alberta and even Alaska. Serious shortages will exist however in the Kootenays and Vancouver Island. Perhaps 2-3000 jobs will be lost (impact in 3-4 years). Communities affected will be the focus of diversification efforts.

Pulp prices are high. Nevertheless, investment dealers expect the pace of capital formation to decline over the next several years. Significant upgrading and capacity has already occurred in the wood-processing industry. Shortages of timber, and *"the tangled web of regulation"* (especially environmental) will discourage investment in major projects. High unit labour costs and the high tax structure in B.C. will also be disincentives.

As home sales fall off in the U.S., the lumber market in the U.S. northeast is slowing and affecting shipments of wood products which are a third of the province's total manufacturing shipments. Trade orders after the Japan earthquake are already being filled. Pulp chip prices are rising to a point where net revenues favour chip production rather than lumber production. As a result, lumber prices are being kept at all-time lows due to high lumber inventories with low demands.

Provincial government environmental regulations will be forcing beehive burner closure at many mills by the end of 1995. As a result of these pressures, Canfor and Northwood Pulp and Timber in Prince George have announced the construction of two world-class medium density fibreboard (M.D.F.) mills in the region. The current M.D.F. marketplace scenario indicates an over supply two years from now.

Mining:

Mineral production value in 1994 was \$2.6 billion, up 16% from 1993. High metals prices, especially

copper and molybdenum, are making 1995 look good so far. Several copper mines have re-opened and capacity expansion is occurring at Fording's Greenhills coal mine. Exploration expenditures rose 30%, but activity was confined to areas of known resources. The 1994 provincial budget introduced \$100 million of tax incentives for mining, estimated at \$100 million over five years, as well as a \$13.5 million exploration cost assistance program. However, there were no further concessions in the 1995 Budget, disappointing the industry. Companies are avoiding the tax and regulatory barriers in B.C. and taking greenfield investment abroad. Mining consultants are spending a lot of time in Chile, Indonesia and Russia, with *"absolutely no work in B.C., which isn't unusual."*

The regulatory barriers arise through a combination of overlap, regulatory confusion, and even 'competition' for jurisdiction. One major firm cites four different departments from two levels of government, each with its own legislation and regulations; one may govern fish, while another is responsible for fish habitat. With the changes in departmental mandates, e.g. Environment Canada, and with downsizing (and internal re-structuring) some project delays are being experienced.

The supply sector to resource industries is being driven south, to the U.S. and South America in the wake of falling B.C. investment. Of six known major plant investments planned (forest sector), none is slated for B.C.. Part of the reason is, the business climate. *"Paper burden is unacceptably high... it is still easier, even with NAFTA, for U.S. competition to get goods into Canada than for us to enter the U.S."*

Manufacturing:

Export markets continue to out-perform domestic markets. Domestically, the market has stifled after more than two years of strong growth. According to firms in export markets, *"orders are showing no signs of reduction."* There is optimism that the export market will stay strong for the next four quarters (assuming a stable Canadian dollar), with a slowdown after that. The only clouds on the export horizon concern prospects of declining growth in the U.S., and interest rates.

Manufacturers still complain vigorously about the business climate. One executive comments: *"Government needs to recognize that any action that distracts a firm's attention away from its*

customer will kill small business." Firms cite current deterrents to investment: taxation, political uncertainty, regulation, real estate costs, unionization, workers compensation regulation, 7% sales tax on manufacturing equipment, capital tax and high interest rates. Firms contend that manufacturing growth in B.C. will lag the growth in the rest of Canada, as one longer-term legacy of this poor investment climate. Alcan and Wieser Locks have closed their B.C. operations and they are not being replaced by similar manufacturers. Another factor has been rapid increases in some commodity prices. Aluminum, for instance, has gone up 45% in six months which adds to cost pressures on users.

In the machinery sector, activity is strong, owing to demand created by the forest industry. There is caution, nonetheless, as lumber prices decline, along with housing starts. One report received a generally renewed interest in rationalization and cost control in anticipation of a downturn. In the plastics industry. There are reports of sales increases of 15% over same period last year. While this is very encouraging, plants are still operating at below capacity. This will concentrate investment attention on modernization rather than expansion, and job creation will be modest. Primarily growth continues in the U.S. market, with firms having less success in Asia and Europe.

High-Tech/Communications:

The sector continues as one of the strongest performers in the regional economy. One executive summarizes, *"There is no sense that economic growth in the province or in our sector has tailed off"* (software firm). Capital supply has been steadily improving to the point where firms report no shortage of investment capital for *"solid prospects."* These solid opportunities are firms which are market-led rather than technology-driven; firms which respond first and foremost to the marketplace. Firms still say that marketing managers are difficult to find and attract -- more so than programmers because of their greater sensitivity to the tax environment. Also firms continue to report their frustrations with customs administration, where there has been improvement but, *"there is still work to be done."* Electronic commerce is viewed as a solution.

A recent large cable TV survey by a communications firm reports continued preference by viewers for Canadian channels and quality Canadian programming. For the communications

sector generally, firms report regulation as a factor in investment uncertainty: *"Don't freeze out existing broadcasters and technology, leave the field open and entrepreneurs will determine who should be licensed."*(broadcaster)

Elsewhere in high-tech, medical devices firm reports that less onerous Health Canada processes (compared to U.S. FDA), has encouraged U.S. firms to investigate B.C. locations. Also, there is a general feeling in academic and industrial quarters that the federal government is retreating from science funding. This threatens the basic research which has been the lifeblood of sectors like biotech. The health care industry was pleased with measures in the B.C. budget which allotted 4% increase in health spending and a 3% rise in hospital funding.

SERVICES

Tourism:

"Very bullish" is the word from industry. As an indicator, wholesale giftware sales are up a reported 25% over the period last year. The hotel sector reports *"full bookings"* for the summer, with spillover into the shoulder seasons. The limited capacity of this sector is beginning to constrain Vancouver's ability to attract a greater share of the convention market, certainly during the peak travel months.

Powell River launched an Internet home page earlier this year, and since then have had 60,000 hits!!! The page illustrates community attractions.

Environmental:

The sector is *"steady"*, but is expected to slow with declines in capital investment elsewhere, and the dampening effects of the *'plateau'* reached in new regulatory activity from the Province. Employment expansion is in *"diversification fields"* like environmental accounting and standards (e.g. ISO 14000).

Other Services:

One positive indicator of consumer confidence in the retail sector comes in the report of 5% growth (over last year) in media advertising revenues. Retail sector growth continues to be strong, along the pattern of the past 4 years, driven by continued movement of people to the province, and movement to smaller centres with expansion of the information highway.

Reports are emerging of a venture capital surplus in the province as public-sponsored venture funds come on line. One private venture capital firm commented on harmful competition between public and private funds for the top opportunities.

OBSERVATIONS

Commentary on federal downsizing: people want to see some "*external verification*" like a public sector strike or marching in the streets to convince them that change has taken place. Not enough clear evidence of pain apparently.

The general impression of the economy is positive, but it's a nervous optimism with high expectations that growth will decline.



OCT 25 1995

ALBERTA
PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

MAY 1995
SPRING ISSUE

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OVERVIEW

For the past two years, posting annual growth rates of 5% or more, Alberta had one of the fastest growing provincial economies. The province benefitted from a vibrant energy sector, and an upswing in manufacturing. The Alberta economy is forecast to grow by 2.7% in 1995 (Conference Board of Canada).

Recent weakness in natural gas prices has contributed to a slowdown in drilling activity. Meanwhile, recent increases in oil revenues, high prices for pulp and newsprint and continuing strong demand for export products are all benefitting the provincial economy.

Alberta's seasonally adjusted unemployment rate fell from 9.0% in April 1994 to 7.8% in April 1995. Rates in Edmonton (8.7%) and Calgary (8.2%) also declined over the period. Province-wide, the number of unemployed persons decreased by 13,000 while the number of employed increased by 55,000. Employment growth is occurring within the context of continued private sector rationalization and a major restructuring of the public sector.

INDICATORS

At 7.8% in April 1995, Alberta's seasonally adjusted unemployment rate was the third lowest in Canada. Canada's rate was 9.4%.

Exports, at \$23 billion in 1994, account for 27% of Alberta's GDP. During the first two months of

1995, exports increased by 41% over the same period last year.

Despite a slow final quarter, business incorporations increased 9.1% in 1994.

From January to March 1995, business bankruptcies increased by 15.6% and consumer bankruptcies increased by 30.1% compared with the same period in 1994. On the business side, the most affected were the construction and the accommodation, food and beverages industries.

During the first two months of 1995, retail sales were up 2.6% from the same period last year.

Capital expenditures of \$18.9 billion are planned by business and government in 1995, off 1.2% from 1994.

Urban dwelling starts for January to March 1995 decreased 23.4% over the same period in 1994.

Natural gas production in Alberta increased 7% in the first ten months of 1994; crude oil and equivalents by 1.5%. In 1994, the average number of rigs drilling was 240, a 39% increase over 1993.

The Consumer Price Index for Alberta during March 1995 rose 2.7% on an annual basis; the national index was up 2.2%.

MOOD

The mood in the Alberta business community appears to be mixed and less upbeat than



Please acknowledge source of information when quoting material from this report.

six months ago. Though investor confidence in the long term outlook for natural gas is strong, the short term is clouded by weakening demand and low prices. A relatively mild winter added to the industry's woes. Drilling activity is expected to weaken significantly for the next season. Oil prices have held up well and renewed interest is being shown in oil sands and heavy oil activity. Major oil companies, however, are still announcing layoffs and restructuring in an effort to get costs down. In contrast with the sputtering engine in the oil patch, other segments of the business community appear to be running smoothly and some may even be gathering steam. Noteworthy are the agriculture and pulp and paper industries, tourism, export-oriented manufacturing and service industries. There, the mood is relatively buoyant.

Consumer confidence remains weak in Alberta, as elsewhere in Canada. Concern and insecurity about jobs, wage rollbacks and restructuring in both the public and private sectors is evident in consumer reticence to make major purchases. The housing market in Edmonton remains depressed, shopping malls are struggling and auto dealerships are having a very difficult time. Calgary is also experiencing weakness in consumer spending and in the housing market especially. Overall, it seems, consumers remain cautious and continue to act as if the recession never ended.

KEY SECTORS

Resource Industries

In the Alberta oil and gas sector, the drilling industry is expected to slow down in 1995-96 from its near record pace of last year. Natural gas prices are weak and drilling for gas is expected to drop sufficiently to more than offset any increase in developmental drilling for oil that may occur as a result of strengthening oil prices. Overall, well completions are expected to be off by perhaps 20%.

Meanwhile, oil production levels are increasing because of the relative stability of oil prices, technological innovations such as underbalanced horizontal drilling, and stringent cost control. 1995 should be another record year for synthetic crude production, as both Syncrude and Suncor manage to lower their unit costs and improve their production capability. Some renewed investment interest in heavy oil is also being shown of late.

The National Oil Sands Task Force has recently released a report which says that the oilsands could fuel the growth of the petroleum sector into the next millennium by tripling production to as much as 1.2 million barrels per day.

The Oil and Gas Industry Outlook survey, conducted twice a year by the Calgary office of Arthur Andersen & Co., provides an interesting barometer of how the mood in the oilpatch has changed in the past six months. In October 1994, 67% of executives surveyed expected to increase staff in the following year but by April 1995, 71% thought employment levels would fall. Capital spending plans are also affected: six months ago 82% said they would expand exploration spending; now only 48% say so. A similar fall has occurred in spending forecasts for development of known energy reserves. Price forecasts by executives saw oil up but gas way down with the average wellhead gas price at \$1.35 per thousand cubic feet versus \$1.85 predicted last October. They now forecast the wellhead price for oil at \$18.54 U.S. per barrel of West Texas Intermediate crude versus \$18 last October. The bottom line from the survey is that the outlook has darkened significantly but the oil and gas industry is basically healthy. In addition to risk associated with uncertain oil and gas prices, other issues troubling executives include access to pipelines, high tax rates and environmental requirements.

The agriculture sector in Alberta continues to be a strong contributor to the provincial economy. Prices for most commodities in the crop sector remain favourable. Seeding intentions figures for Alberta show an increase of 6% for wheat and barley, 13% for peas but a decrease of 8% in canola and 10% in oats. Cool temperatures and rain in parts of the province have delayed seeding below normal for this time of year. However, an expected fertilizer shortage was averted because of the extended seeding period. Fertilizer prices are approximately 20% above last year. In both Canada and U.S., the 1994 potato crop was good although the increase in supply has put downward pressure on prices for table potatoes in Western Canada. The western forage sector experienced record production levels of processed alfalfa pellets and cubes, and exports of densified hay to Asia have increased by nearly 70%, to almost 70,000 tonnes. Production costs for livestock at the farm level have risen, due mainly to higher grain input costs. While demand for meat products will remain

strong, live animal prices are expected to fall due to record levels of total North American production. Margins for processors and retailers have remained positive and expectations are that this situation will continue. Exports of pork and beef are strong and are expected to remain so, due in part to the strength of foreign importing economies in the Pacific Rim region.

The agriculture sector continues to be challenged on a variety of policy fronts. Recently announced changes to the Western Grain Transportation Act (WGTA), most notably the demise of the transportation subsidy paid to grains producers, are expected to have a significant impact on the sector in western Canada. Immediate impacts of transferring freight cost to producers will likely be on shipping and marketing decisions throughout the sector. Alberta continues to press for revisions to the Canadian Wheat Board (CWB) Act which would allow direct marketing access for grains into the U.S..

The end of the WGTA subsidy is also expected to rationalize the alfalfa dehy processing sector and affect Canada's competitiveness into Asian markets. However, monies available under the WGTA adjustment fund are available to help mitigate some of these impacts. The Canadian sugar industry remains in an uncertain environment as the U.S. continues to impose trade restrictions on imports of sugar and sugar containing products. Canadian honey producers fear the imposition of a minimum 140% duty by the U.S. on Chinese honey will result in an increase of imports into Canada.

In the Alberta forest products sector, pulp and paper firms are experiencing soaring prices and profits. Pulp prices have doubled since January 1994 and some analysts are saying that prices could go as high as \$1000 U.S. per tonne. This is partly due to logging constraints related to environmental concerns and by fibre shortages generally. Newsprint prices have gone up by more than 50% over the same period. Further capacity expansions and possibly one further new plant, by Grande Alberta Paper, are being considered.

Lumber prices, on the other hand, have deteriorated significantly. Lumber markets and margins are depressed to the point that companies are cutting back on their capital spending plans. Panelboard also appears to be in oversupply, with oriented strandboard in particular feeling the effects

of explosive new capacity added in recent years. Two such new plants are being added in Alberta.

According to the Alberta Forest Products Association, lumber production increased by 14% during the fourth quarter of 1994, whereas the value of shipments decreased by 8%. Softening prices are largely due to a less active new housing market. Pulp production increased by 29% and Alberta shipments soared by 75%, aided by the addition of a new mill and very strong market demand. Preliminary statistics for the first quarter, according to the Association, indicate that the production momentum has carried over into 1995.

Manufacturing

Manufacturing in Alberta is on an upward trend and the outlook for 1995 is for further positive growth. At \$24.9 billion in 1994, Alberta's value of manufacturing shipments was 18.2% higher than in 1993, the second highest rate of growth in Canada. Cumulative shipments for the first two months of 1995 totalled \$4.2 billion, an increase of 25% over the same period a year earlier.

Manufacturing exports are vital to the province's growth and diversification and currently account for one-third of Alberta's total merchandise exports. Alberta's manufacturing exports also surged in 1994, growing by an estimated 33% over 1993. There were sharp increases in exports of paper and allied products, primary metals products, electrical/electrical products and solid wood products.

Alberta's chemical industry has emerged as the province's second largest manufacturing industry, after food processing. The value of chemical shipments has grown from \$755 million in 1979, to \$3.9 billion in 1994. The chemical industries are highly export-oriented, with international exports accounting for more than half the value of total shipments in 1994. At just over \$2 billion, chemicals and chemical products were Alberta's number one export among manufacturing industries and accounted for 8.8% of total exports. Investment activity in the chemical industry has been steady, and the opportunities for continued growth and expansion are promising. Examples of recent expansions/developments include Dow Chemical's \$800 million hydrocarbon petrochemical facility, Alberta and Orient Glycol Co.'s \$385 million ethylene glycol plant and the \$70 million expansion at Du Pont Canada Inc.

Advanced Technology

On May 3-5, Calgary was host to the 10th annual conference of the Canadian Advanced Technology Association (CATA). This national conference was well attended, attracting about 450 delegates from across Canada and from countries abroad such as U.S.A. and Taiwan. The sessions afforded an opportunity for local firms and individuals to network with CATA members from across Canada who might not otherwise get together. Of note, in particular, was the interest and high representation from the banking community, with Canada's major banks all having delegates present.

Services

The oil and gas service industry will likely experience a severe downturn over the next several months. Drilling activity set a torrid pace in the first quarter and was going flat out until spring break-up. Oilweek's forecast now calls for a massive slowdown in drilling this spring right through to the fall. With the protracted slump in natural gas prices, forecast well completions for 1995 are now placed at 8,200 or little more than two-thirds last year's level. The service industry will be affected accordingly, although pockets of activity servicing development of existing oil wells will fare relatively well. In a dramatic turn from a year ago, oil is currently driving the industry from a price standpoint. Activity later in the year will be affected by what happens to natural gas prices, which in turn are positively influenced by high temperatures in summer and colder weather in fall and winter.

Tourism represents a significant and growing sector in the Alberta economy. It is one of the province's largest industries, employing an estimated 100,000 persons and generating over \$3 billion in annual revenues. The outlook for tourism in 1995 is positive. Alberta Economic Development and Tourism is forecasting a 4.7% increase in tourism revenues for the year. The number of domestic and international visitors is expected to increase, with the strongest growth coming from overseas countries, particularly the

Asia-Pacific region. The tourism and hospitality industry will benefit from the relatively low value of the Canadian dollar, as it makes Canada (and Alberta) a relatively inexpensive vacation destination for foreign visitors. The number of Albertans travelling within the province and other Canadians travelling to Alberta are both expected to show good growth in 1995.

Alberta, too, is in the movie business! Alberta's big-screen vistas, combined with a favourable exchange rate and western hospitality, are luring filmmakers to the province in greater numbers than ever before. In 1993 and 1994, film producers spent \$46 million and \$60 million, respectively, in Alberta. Recent productions include *Unforgiven* with Clint Eastwood, *Legends of the Fall* with Brad Pitt, and *Children of the Dust* with Sidney Poitier.

OBSERVATIONS

"The rose has lost a little bit of its sweet smell." says Harry English of Arthur Andersen & Co. speaking about the results of their most recent Oil & Gas Industry Outlook survey which was conducted in late April.

"A Texan can do subsurface geology. But when it comes to -50 C design temperatures, or putting a pipeline into permafrost, we have no competition." John Wood, president of the Association of Professional Engineers, Geologists and Geophysicists of Alberta speaking at APEGGA's 75th anniversary celebration about change and progress in the association and some unique opportunities afforded to members because of our northern latitude and cold climate expertise.

"It's a no-win situation for an airline to take sides in local airport issues - we deal with the situation that is there." Canadian Airlines International CEO Kevin Jenkins on being asked if Edmonton's two-airport situation, that splits traffic between the Municipal and International airports, hurts the city's chances of getting new direct flights under Open Skies.