



## SASKATCHEWAN PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

SEPTEMBER 1995  
SUMMER ISSUE

### OVERVIEW

The Saskatchewan economy is entering its third consecutive year of expansion, although it is not likely that the 4%-plus growth of 1993 and 1994 can be sustained into 1995. Many of the positive developments in the economy, most notably those in mining and residential construction, are continuing. However, grain production volumes are expected to match or only slightly exceed 1994 levels.

Resource commodity prices continue to strengthen in nearly all categories, the exceptions being solid wood products and cattle.

Elimination of the Crow Rate will double farmers' grain transportation costs in years to come. Rail deregulation will result in further adjustments. The agricultural sector, and the communities and related industries and services which depend on it, can expect an extended period of adaptation to new market realities and competitive forces.

### INDICATORS

Most indicators point to a healthy economy. Statistics Canada reports manufacturing shipments have increased 15.7% in the first six months of 1995 over the previous year. Exports jumped by over 30% in the same period and stood at nearly \$4.6 billion in June. Retail trade has grown by 4.1% in the first half of the year compared to 1994.

One of the most dramatic indicators is a 61.8% increase in building permits in the first seven months compared with last year, in contrast to declines elsewhere across Canada. Very low vacancy rates and strengthening resale prices confirm the tight housing market generated by several consecutive years of a virtual freeze in residential construction. The market is strongest in Saskatoon and surrounding areas.



StatsCan quarterly estimates indicate the provincial population grew by .4% from April 1994 to April 1995, and now totals 1 018 600. However, the peak of 1 036 400 reached in the third quarter of 1987 has not yet been regained.

Provincial welfare rolls are declining, with caseloads for each of the first eight months of 1995 lower than the corresponding month in 1994. In July 1995, there were 39 784 active welfare cases (82 329 people) in Saskatchewan.

There are currently 37 992 business corporations on the provincial register. New businesses have increased by 25% over last year. Provincial incorporations in the first seven months of 1995 totalled 1795 firms, compared with only 1432 in the same period of 1994.

Not all measures are favourable. Business bankruptcies have increased 4% as of August of this year compared to 1994. However, the 143 affected firms represent less than 8% of the new formations. Non-business bankruptcies have increased 20% up to August compared with the previous year-to-date.

StatsCan reports that employment for August 1995 is identical to that of August 1994. When combined with 1% labour force growth, the unemployment rate has jumped to 7.7% compared with 6.7% this time last year. Saskatchewan can no longer claim the lowest unemployment rate in Canada.

## MOOD

The combination of continued growth in markets and prices in the mineral sector, improved prices for grains and prospects of a harvest at least equal to last year's, and the stimulus which this activity has provided to residential construction and retail spending has contributed to an optimistic mood.

The need to realign public spending and taxpayer expectations with available revenue is now fairly well established. A sense that public debt is beginning to be faced squarely comes as a relief in many quarters.

Groups not sharing this optimism include young workers, who are finding employers reluctant to rebuild work forces, and people on fixed incomes, who face rising utility costs and, particularly in rural Saskatchewan, a reduction in health services.

## KEY SECTORS

### Resource Industries

World wheat stocks at 20-year lows following drought in Australia and average crops in Europe and North America in 1994 have sent wheat prices to levels not seen since 1981. By September 21, more than 60% of Saskatchewan's crops were harvested, putting farmers ahead of the five-year average. Estimates continue to point to an above-average quality crop.

Weather remains, as always, unpredictable and crucial for maintaining volumes and grades. In some areas of the province, drought, cool weather and late rains in places such as the northwest corner of the province, have already resulted in write-offs. Bertha army worms also hit canola this year.

StatsCan forecasts total Saskatchewan production of the six major grains at 21.8 million tonnes, the same as last year, but 500 000 more acres were seeded in 1995. Current estimates indicate wheat will regain its first-place position, which it lost last

year to canola, with production valued at an estimated \$1.2 billion for number 1 spring wheat and \$530 million for number 1 durum. Saskatchewan's canola crop is expected to be worth \$1.19 billion this year. (Saskatchewan Wheat Pool production estimates are more optimistic than those of StatsCan and place production of the six grains at 24 million tonnes.)

Despite higher grain prices, neither farmers, their suppliers nor their creditors are expecting a windfall. On August 1, 1995, the Western Grain Transportation Act subsidy (the Crow Rate) ended. Railways will no longer receive a subsidy to move grain, which means the average farmer will now pay an additional \$12 000 per year in transportation costs as other input costs continue to rise.

To cushion the loss, a \$1.6 billion fund is being distributed across the Prairies, of which \$902 million is destined for Saskatchewan. The deadline for applying has been extended to November 1. Cheques covering three-quarters of the payout are expected to be distributed in early 1996, with the balance arriving by next summer. For most recipients, the payment can be treated for tax purposes as capital, not income, since it will be linked to land ownership.

Cargill Ltd. of Minnesota and Archer Daniels Midland of Illinois are staking their positions in Saskatchewan's canola industry. Cargill is building a \$53-million 2 000-tonne per day canola processing plant which should be operating by this time next year. Archer Daniels' much smaller investment takes the form of a 20 000-tonne canola storage and loading operation which will ship 100-car trains to facilities outside Saskatchewan.

Oilseed crushers from around the world will be meeting in Malaysia in late September to discuss Japan's longstanding trade restriction. It imposes high tariffs on imports of finished product but allows uncrushed oilseeds to enter duty-free. Removal of this barrier could influence companies such as Archer Daniels to convert handling facilities into processing operations.

Cattle feeders are among the very few not celebrating rising grain prices. Profits are turning into losses as feed costs have increased by over 30%, while cattle prices have dropped by over 25% since last year. A high level of uncertainty and a volatile market are expected in this sector for several months.

Mining continues as a source of considerable strength. Oil, natural gas and mineral production totalled about \$4 billion in 1994, generating about \$725 million in royalties and tax revenue, representing nearly 13% of the province's total revenues.

Potash sales of \$1.2 billion in 1994 represented a new record, which will likely be surpassed in 1995. The Potash Corporation of Saskatchewan (PCS) has reported that, in the first six months of 1995, sales volumes were up 8% and prices were up 15% over the previous year. Oil well drilling is up by more than 35% to the end of July as lower gas prices turn producers' attention to oil. Wascana Energy reports oil production up 12% in the first half of 1995 with gas production up 5%. Uranium production has increased by nearly 10% in the first seven months of this year.

PCS has spent over \$1 billion this year acquiring U.S.-based assets which now make it the second-largest producer of phosphate in North America and third-largest in the world by capacity. PCS is forecasting growing demand in offshore markets for both potash and phosphate. PCS now employs more than 4600 people.

The McClean Lake Joint Venture and the Cigar Lake Joint Venture announced agreement has been reached whereby the two joint ventures will build and operate common uranium milling facilities. Cigar Lake ore will be trucked to McClean Lake. Development at McClean Lake started this spring and production will commence in mid-1997. The Cigar Lake project will submit its Environmental Impact Statement this fall to a federal-provincial review panel, which is expected to render its decision in the first half of 1997. If positive, production at Cigar Lake would commence in 1999.

### **Manufacturing**

MacMillan Bloedel and Saskatchewan Forest Products Corporation, a provincial Crown

corporation, have formed SaskFor Inc. which will construct and operate a \$130-million, oriented strandboard mill in northeast Saskatchewan. The mill is expected to open by mid-1997.

Steel producer Ipsco Inc. has reported record net income of \$44.9 million for the six months of 1995 on sales of \$380.4 million, compared with income

of \$22.4 million on sales of \$399.9 million in the same period last year. The melt shop is running at full capacity following August's maintenance shutdown, and demand for implement steel and structurals is remaining firm. However, signs of softening in the latter part of 1995 are beginning to show — oil-country drill stem demand started strong, but a 10% softening is expected later this year, while demand for large diameter pipe is slow.

The Prairie Implement Manufacturers Association reports that members are experiencing softening sales with some of the major producers laying off employees. Uncertainty associated with the longer-term consequences of termination of the Crow Rate, late seeding in both Canada and the U.S. and a subsequent late harvest, with risks to volumes and grades, are being only partially offset by increased prices. Several farm machinery manufacturers are reported to be laying off staff. They are still hoping for a good fall, however. Companies buying steel are expected to do so to make up for the difficulty faced last year in sourcing raw material when it was needed to meet orders, or because they are producing truck boxes, demand for which has remained firm.

Nu-Fab Building Products reports continued success in exporting manufactured homes and recently sold an additional 50 prefab homes through Japan's S.G. Kai Group. Nu-Fab is also expecting orders to follow a recent visit to South America which would help diversify the company's international sales. Exports now account for one-half of Nu-Fab's sales and have led to a one-third increase in plant employment, mostly in what the company's president describes as high tech jobs.

International Road Dynamics, a manufacturer of integrated commercial truck weigh stations, reports a 44% increase in sales in the first nine months of its fiscal year. The U.S. Federal Highways Administration has awarded the company a sole-source contract to design and construct a national prototype facility in Oregon which will weigh trucks in motion at highway speeds.

Mercury Graphics has announced it has won contracts valued at \$8 million to produce tickets and boarding passes for four international airlines. This is in addition to the 13 air carriers the company already has as clients. The Saskatoon-based printer also produces tickets for prestige events such as the Academy Awards.

### Information Technologies

TRLabs' Saskatoon facility is continuing to develop and has been demonstrating switching technology used to combine video, voice and data images designed to be sent over telecommunications networks. Companies, including SaskTel, are hoping to use the technology to develop new services such as distance education, video-conferencing, tele-medicine and video-on-demand.

### Services

Saskatchewan's tourism industry enjoyed increased activity up to June of this year. Direct border crossings, hotel occupancy rates, restaurant receipts and retail sales are all significantly higher in the first six months of this year compared with last year. Randy Williams was recently named the new Chief Executive Officer of the Saskatchewan Tourism Authority.

### OBSERVATIONS

Several technologies and competitive forces are converging to change the prairie landscape — literally. Tractor-trailers equipped to provide services identical to traditional wood grain elevators are being introduced this fall by the three prairie pools and the United Grain Growers Limited and possibly by others in the industry. The "mobile elevators," a world first, will weigh the grain as it is being loaded. Dockage, moisture and grade will also be assessed. The information will then be relayed via cellular-satellite technology for

processing. A message will be returned to the on-board computer and a cheque printed for the farmer before the unit, and the grain, leaves the yard. Extensive use of this service can be expected in areas where traditional elevator service is being withdrawn, and for handling specialty crops.

Two Saskatchewan entrepreneurs have been selected as finalists in Ernst and Young's Entrepreneurs of the Year award: Jim Yuel, president of PIC Investment Group, in the Wholesale and Distribution category, and John Cross, head of Philom Bios, in the Science and Technology category. Both believe more of the province's entrepreneurs need to tell their success stories.

In other awards news, three Saskatoon women are among the 38 to have been nominated in the Canadian Women Entrepreneurs of the Year Awards, sponsored by the Faculty of Management, University of Toronto. Nominated are Cindy Tagseth in the Quality Plus category, Della Summers in the Turnaround category and Vera Heinze for her impact on the local economy.



**QUEBEC**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
SEPTEMBER 1995  
SUMMER ISSUE

## OVERVIEW

The Quebec economy has been in low gear since the year started, although it would be somewhat hasty to talk of a recession. This disappointing performance largely reflects a lacklustre domestic demand, especially in the areas of consumer spending and construction. The situation is slightly better in the business sector, and companies remain relatively optimistic.

## INDICATORS

Second quarter estimates of the national accounts by the Bureau de la statistique du Québec have confirmed the economic slowdown in Quebec, with the provincial GDP shrinking at an annual rate of 0.2% (provincial GDP deflated by the Canadian implicit price index).

The weakness of the Quebec economy is most apparent in the area of domestic demand. For the second consecutive quarter, growth in the total domestic demand (constant \$) was negative (annual rate of -1.2%). This drop follows the 2.7% decline in the first quarter. All aspects of domestic demand are affected. Personal spending on consumer goods and services increased marginally by 1.3% between the first and second quarters. Real fixed capital investments posted an annual decrease of 7.8% between the first and second quarter following the slowdown in Hydro-Québec's capital programs and the collapse of the construction sector.

Given the current level of effective interest rates, the uncertainties of the labour market, sluggish growth in earnings, and high taxation levels, this conservatism among consumers is hardly surprising. A review of the indicators shows that the same situation is likely to persist in coming months.



In July, average weekly earnings in Quebec fell below last year's level (\$543.13 compared to \$547.39, seasonally adjusted). Although some 8000 jobs were created in August (seasonally adjusted) in Quebec, they merely offset the losses of the previous month, and the unemployment rate remains high (11%). Moreover, a gradual decline since June in the

seasonally adjusted help wanted index by Statistics Canada does not bode well for the job market. In September, the index was 98, a figure below the 1991 = 100 reference mark.

Another indicator of financial troubles in Quebec households is the 26% increase in the number of personal bankruptcies during the period from January to July compared to the same period in the previous year. This was the highest increase in all the major regions of Canada.

The situation improves slightly with respect to companies. In June and July, manufacturing shipments were 11% higher than during the same period in 1994, and international exports continue to grow. However, the situation warrants caution.

For the first time since 1992, corporate before-tax earnings declined (annual rate of -18.3% between the first and second quarters). We also note that corporate investment in inventories climbed in real terms from \$608 million in the fourth quarter of 1994 to \$1.6 billion in the first quarter of 1995, and then to \$1.4 billion in the second quarter. The creation of such inventories will necessarily impede a recovery in production when demand firms up.

In these circumstances, it is not surprising to note that the number of Quebec companies (as measured by the number of payroll deduction remitter accounts) did not grow between the first and second quarters. The projection for corporate investment in 1995 was also recently lowered in Quebec, from \$28 billion (start of year forecast) to \$27.6 billion (mid-year forecast). In almost all of the other provinces, investment projections rose.

Despite everything, entrepreneurship is healthy in Quebec. For example, in August 1995 there were 197 000 self-employed workers (incorporated companies), or 26 000 more than last year. We also note a sharp increase in the number of inquiries received by the Centre Info entrepreneurs. During the period from April to August 1995, the Centre handled 11 044 contacts (visits, calls to the Centre's Info Fax service, telephone replies, etc.), representing an increase of more than 26% over the same period last year. Approximately 18% of the inquiries concerned starting up new businesses, 13% financing, 14% international trade and 7% market research.

## MOOD

The economic slowdown has triggered greater caution among Quebec households. To a lesser extent, the same applies to companies.

When the Conference Board of Canada asked Quebec households in early September if they thought it was a good time to make major purchases (e.g. house, car, etc.), 57% answered negatively, compared to the 54.3% who gave this response just a few months earlier (June survey). Despite everything, if the consumer confidence index of the Conference Board is correct, Quebecers remain optimistic about the future. The index posted a surprising increase, climbing from 90.7 to 95.4 between the second and third quarters.

The July survey by Statistics Canada on the outlook of business indicates that only 19% of Quebec manufacturing firms reported an increase in new orders compared to 29% in the spring. Furthermore, the percentage of companies reporting that their order books were smaller than normal climbed from 21% in the spring to 24% in the summer. Despite this bad news, we should point out that most companies (59%) still viewed their order books as "normal" this summer.

According to a survey by the Groupe Everest's research/strategy division on behalf of the National Bank of Canada and *La Presse* (Sept. 11, 1995), almost one-half of the 300 small and medium-sized business (SMB) leaders in Quebec questioned considered that Quebec's economic situation in the last year had been only "average," while almost one-third believed that the situation had been "bad." Approximately 49% of executives surveyed believe that Quebec's economic situation will remain unchanged over the next 12 months, while 29% believe it will worsen. The SMB leaders mentioned economic and political uncertainty and the problems of inadequate sectoral legislation as factors.

## KEY SECTORS

### Traditional Industries

The Quebec food industry appreciably expanded (10%) its international export figures last year. The strongest growth was reported for small fruit, cakes and maple products. We note that the vast majority of food products exported by Quebec are value-added products. The presence in Quebec of a very active Agri-Food Export Club facilitates this foreign market penetration; the 15 or so foreign trade missions organized by the club in 1994-95 helped publicize the products of its 295 members.

The beverage industry is thriving in Quebec. Brewers launched 28 new beers (Gaillarde, Celtique, Loch Ness, l'illégale, etc.) on the Quebec market over the past year. Many players share the provincial market: large local breweries, Quebec-based micro-breweries, Canadian breweries outside Quebec, the "major" American breweries, overseas breweries, etc. To win more recognition of their products, producers are devising ingenious means of competing. For example, Molson O'Keefe has used interactive

advertising whereby television viewers can call a toll-free line to vote for the best of two conclusions in the ads shown. Apparently 1.14 million calls were made.

Since 1993, the **lumber industry** (sawmills, board manufacturers) in Quebec has invested heavily in modernizing its plants. These investments aim to reduce production costs and strengthen the plants' position in the event of a market slowdown. Such investment is boosted by the relatively healthy price of lumber at present. After a sharp decline in the first quarter, prices firmed up somewhat as housing starts began their recovery in the United States in May. Companies have also taken steps (e.g. extended vacations) to prevent their inventories from piling up over the summer.

We note that many sawmills have recently been bought out by paper companies seeking to guarantee their supply of wood chips. As for the paper companies themselves, their situation remains excellent, and pulp prices continue to remain firm. Some paper producers are achieving significant breakthroughs in Asia, a part of the world where newsprint consumption is rapidly rising but is still far below per capita levels in North America or Europe.

Among **textile manufacturers**, the major event of the past few months is the announcement by Dominion Textile of plans to sell all of its spinning plants. For the industry as a whole, sales are increasing, particularly among foreign clients. Also, a few companies have announced investment plans in an effort to better serve the American market.

Clothing manufacturers sell most of their stock on the domestic market, although exports of middle to top-of-the-line products are significant. We also note a willingness among manufacturers to enter more joint projects, which offers them many advantages: the ability to place larger orders with subcontractors and obtain better prices from them in return, the sharing of export costs, etc. Foreign market penetration is a vital concern to many companies in this sector, and recent success in this area has opened the door to additional hiring, a trend expected to continue over the coming months.

Quebec's **furniture industry** suffered badly in the last recession, but the latest news indicated a sharply improved situation, as evidenced in the success of the recent furniture show in Montreal.

This turnaround was the result of the sustained efforts of manufacturers, particularly in improving quality and design, investing in new manufacturing technology and in exploiting wood-frame furniture market niches, which are less susceptible to the effects of cheap imports in the upholstered furniture market segment. To offset the slump in the domestic market, the industry has also tried to exploit foreign markets and more than doubled Quebec exports in this area between 1990 and 1994.

In the **automobile sector**, sales continued to falter and GM, in Ste-Thérèse, will proceed with the elimination of one work shift as previously announced. This means 1 140 layoffs and a drop in daily production from 980 to 420 cars. This situation will affect many Quebec subcontractors, who provide components as varied as ventilation conduits, moulded carpets or joint seals. As for the Hyundai factory, no change is reported; it remained closed following an indefinite halt in operations. Recently, Hyundai decided to pay back government funds provided during start-up operations and now payable following the closure. This does not necessarily mean that Hyundai is giving up on its Bromont plant; it will continue to study the alternatives to re-launch this plant's activities, either on its own, with a partner, or by selling out to a third party.

In the **bus manufacturing industry**, Novabus is completing the introduction of a new production line of low-floor buses, and production of the first commercial vehicle is scheduled to begin shortly. The "Classic" production line is running at full capacity, in part for export. At Prevost Car (highway coaches), which transferred ownership to the Volvo/Heulys Group consortium, output is currently 2.6 buses a day (800 a year). Following massive hiring over the past few months, this firm now employs more than 950 people. In a recent press article, one Prevost Car executive confirmed the new management's plans to gradually withdraw from parts manufacturing to specialize in assembly. Demand remains strong and the order books are full.

In the **heavy truck sector**, the 900 unionized employees of Kenworth have been on strike for several months now. This strike is occurring at a time when orders are still high, but the market is already showing signs of slackening. To better serve this sector, Camoplast announced the creation of a new 54 000 sq. ft. plant in Acton Vale, to specialize in manufacturing fibreglass

parts for heavy trucks. This activity, formerly performed in Roxton Falls, will free up 20 000 feet of floor space for the expansion of activities in the recreational vehicle sector. In this sector, Bombardier still expects sustained growth in Sea Doo deliveries and, following the example of Beauce Composites, Camoplast has announced an investment in Grand-Mère to manufacture fibreglass hulls for Bombardier.

The **surfacing** industry (metal plating) provides a vital service to companies in a wide range of sectors (printed circuit board manufacturers, aerospace industries, etc.). Approximately 120 companies in Quebec have "captive" divisions that are dedicated to surfacing, and 170 other companies work freelance in this field. Almost 70% of the industry is concentrated in the region of the Montreal Urban Community (MUC).

In the beginning, the surfacing industry generated considerable pollution. However, over the last 15 years, the industry has taken major steps to comply with environmental regulations. These efforts have produced positive results and, according to a recent MUC report, the industry has reduced its heavy metal emissions by 90% since 1980. However, there is a push within the office of the federal minister of the environment to require that the industry conform to stricter criteria. According to industry executives, the current regulatory framework is nearing the point of forcing companies to close or to subcontract their finishing work to places where regulations impose less cost. Plating industry executives are particularly opposed to the fact that some metals (chrome hexavalent, nickel and cadmium salts) used in metal surface treatments were recently classed as toxic, thereby implying additional controls and costs which could undermine the industry's competitiveness. Some provinces may try to challenge the constitutionality of the planned federal regulations.

Significant investments may be made in the **plastics** industry in the near future, especially in the plastic film and flooring field. We also note that the price of certain resins is stabilizing or beginning to fall, following a slowdown in demand reported in many market segments, construction in particular.

The **residential construction** sector remains in critical condition. In July and August, housing starts fell to their lowest level since the black

summer of 1982. Annually, only 13 700 starts (data for large urban centres) were launched in August. Although the situation improved slightly in September, the construction industry in Quebec remains in a catastrophic state. The usual suspects are high real interest rates, high levels of household debt, the low growth in household income and the growing lack of job security. But these causes provide only a partial explanation. Circumstantial factors also play a role, including the decline in the number of households among persons between 25 and 35 years of age (the bust of the baby boomer generation) and the absence from the market of older buyers seeking a larger or more luxurious home because of problems in selling their current residence. Nevertheless, CMHC believes the worst is over and that construction will pick up slightly in the next year, with the number of units climbing from the estimated 22 800 this year to 28 000 next year.

#### New Economy

The **aeronautics** sector reported small but real growth over the past few months. The order books are filling up and some companies, such as Pratt & Whitney Canada, recently rehired staff. At Bombardier, aeronautics sector sales are expected to double within five years, and the company has announced the launch of its Dash 8-400, a 70-seater regional aircraft with engines to be supplied by P&WC.

The situation facing **advanced materials** manufacturers (polymeric composites, metallic matrices, alloys, new metals) remained relatively unchanged over the past few months. However, we note a few announced investments (e.g. Camoplast). Lastly, the Institut des technologies du magnésium (ITM) is trying to create spin off effects in Quebec. To achieve this, ITM plans to use research results produced with foreign partners.

Strong demand allowed companies in the **advanced manufacturing technology** sector (software, electronic systems and system integrators) to post good growth in sales, and employment levels in this sector are on the rise. As well, companies in this sector take a somewhat optimistic view of the next two years. They believe that SMBs will continue to invest in advanced production technologies to strengthen their competitive position or to make up for lags. The low value of the dollar is a competitive



advantage, but many companies believe that high interest rates can slow the expansion of equipment replacement operations.

The film production industry in Montreal has received good news. Montreal's film promotion budget was renewed for the remainder of the year, which will allow efforts to promote the city as a film site among foreign producers to continue. Industry insiders also hope that the promotion budget will be renewed next year. The number and value of foreign productions (approximately \$35 million during the first eight months of 1995) fell below the figure for the same period last year. Fortunately, the sector expects a sharp increase in filming activities over the fall and winter periods.

Computer services firms should post strong growth in coming years after being awarded contracts for certain computer activities by large companies. With the growing complexity of computer systems and telecommunications, an increasing number of companies contract out all or part of their computer activities to computer firms with highly specialized skills in the field of new technologies, such as client-server environments, graphic interfaces and open platforms. IDC Canada anticipates an annual growth in demand of 17% for computer services in Canada and the United States over the next three years.

Parallel to expansion in the computer services industry, we note an increase in foreign takeovers. In Quebec, the American company Amdahl, and just recently IBM, submitted public offers to purchase the Groupe DMR. These takeovers offer excellent business opportunities for American companies to diversify their activities and income sources. In the case of the Groupe DMR, staff will be kept on in Quebec and in Canada, and the buyout by an American company should increase sales and open access by the Groupe DMR to new distribution networks and new markets.

The worldwide Internet network has expanded its users from one million to 40 million over the past 18 months. However, the fact that electronic data interchange (EDI) transactions cannot be performed securely on the Internet is a major roadblock to its usefulness in financial transactions. In light of this, one Quebec company, IMPACT Immedia, announced that it soon plans to market an integrated solution that will allow for electronic commerce on the Internet by converging EDI, e-mail, money transfers and data transfer management in an open environment,

while ensuring secure transactions and electronic payments. This solution was developed through an R&D project funded by the CANARIE program.

Hydro-Québec is very seriously considering a move into the telecommunications market. The government corporation would capitalize on its large internal communications network. This network, spread throughout the entire province, largely relies on microwaves and fibre optics. A legal entity, Hydro-Québécom has already been established, and partners are now being sought. Hydro-Québécom targets a vast clientele: business, industry and the residential sector.

The medical products industry is extremely disturbed by Health Canada's cost-recovery plan. According to the industry, this plan will increase markup prices, thereby harming the ability of local industry to compete with American firms. The industry also complains about the high level of real interest rates which poses a problem in financing inventories and investment projects.

The industrial development of biotechnology in Quebec will be boosted with the upcoming creation of a vaccine plant by IAF Biovac in Ste-Foy, and a biopharmaceutical products bulk manufacturing plant for the clinical and commercial trials of Bio-Intermédiaireur Amérique du Nord Inc. This factory will be located on a site adjacent to the NRCC Biotechnology Research Institute. These two new investments alone amount to \$70 million and will create 150 new skilled jobs. We also note the recent opening of the biotechnology incubator in Laval. Lastly, we should underscore four major events related to the biotechnology sector which were held in Quebec during the fall-winter quarter. These symposiums, conferences and conventions will offer companies and researchers an opportunity to profile their skills and experience, establish ties and meet with risk capital companies.

The end of large-scale domestic contracts forces environmental consulting companies to battle over the remaining small-scale local projects, which is damaging profit margins. This painful situation is prompting a growing number of firms to turn to foreign markets. Government has a major role to play in promoting the export of Canadian and Quebec environmental expertise. We should mention, for example, the recent launch by Industry Canada of its computer inventory "Canadian Environmental Solutions,"

its efforts to help create consortiums of consultants and manufacturers to penetrate the South American market (e.g. Colombia, Venezuela, etc.), and its participation with Environ-Accès and the Canadian Embassy in Paris on a linkage project involving a half dozen domestic and French environmental companies.

**Management consultants** are closely monitoring developments across the border, especially amalgamation among large American firms. The Canadian industry fears having to confront "giant" consulting firms. It seems that some certified administrators are beginning to question whether the corporate cutbacks of the past few years overshot the mark and, in the mid-term, will cost more than they save.

Everything would seem to indicate that 1995 will finish as a good year for tourism. Figures published by the Greater Montreal Convention and Visitors Bureau indicate that the hotel occupancy rate in the Montreal region between June and September (inclusive) was 83.4% compared to 76.9% for the previous year. According to a recent report by the Government of Quebec, the province is currently the destination of 19.7% of travellers in Canada, and earns 19.2% of tourism income from countries other than the United States. In this respect, Québec ranks third behind Ontario and British Columbia. As for the American market, Quebec receives 13.2% of visitors and earns 15.6% of tourism income in Canada.

## OBSERVATIONS

A recent study which described the technological profile of small and medium-sized businesses in Quebec shows that 84% of the 400 companies surveyed, representing 20 industrial sectors, have introduced at least one advanced production technology. The study reported that, over the past two years, companies have invested an average 14.6% of their profits in new technology. We also note that SMBs with 50 employees or less have proportionally invested the most in new technology, in an amount representing 17% of their profits, compared to 10% for the largest companies in the sample. Through this investment, the firms hope to lower their manufacturing costs, improve existing products and increase production capacity.

Everyone knows that the health of the Canadian economy relies heavily on international exports. However, the importance of commercial trade between the provinces is less well known. The latest figures pertain to 1990 and were released only a short time ago. A review of these data shows that Central Canada (Quebec and Ontario) generates the lion's share of interprovincial and international trade, with almost two-thirds of the Canadian total of such trade originating in these two provinces. Within the country, Quebec and Ontario are also each other's best clients. More specifically, Quebec sold Ontario more than \$20 billion of goods and services in 1990, and Quebec purchased almost \$23 billion from Ontario over the same period. By comparison, Quebec's international exports were \$29.7 billion.

For Quebec, trade with its national and international neighbours is not only a big money maker, but also an extremely important source of employment. For example, interprovincial trade alone supports 414 000 Quebec jobs, including 234 000 which rely exclusively on interprovincial trade with Ontario. Inversely, 250 000 jobs in Ontario directly or indirectly depend on interprovincial trade with Quebec.

Quebecers are known to enjoy festivals, and there is one for every occasion — even a blackfly festival! Apart from their public entertainment value, these festivals are an increasingly important economic force. According to some initial estimates, the four largest festivals in the Montreal region (the International Jazz Festival, the Just for Laughs Festival, FrancoFolies and the Film Festival) generate economic spinoffs in the neighbourhood of \$100 million. A study now in progress will soon provide a more accurate estimate in this regard.

As of June 1995, some 300 Quebec companies had adopted ISO standards. This figure represents 20% of registered Canadian companies. Ontario accounts for 50% of registrations.

According to the Sous-Traitance Industrielle Québec (STIQ), there are 3088 industrial subcontractors in Quebec. These companies operate in the metal products, machinery, transportation, electrical and electronic products, plastics, furniture, and wood processing industries. Half of the STIQ's member companies use CAD/CAM (computer-aided design/computer-aided manufacturing). Approximately 30% of industrial

subcontracting firms are certified or comply with quality standards (ISO, MIL-Q, etc.), and 17% are currently introducing quality control programs. A majority of industrial subcontractors in Quebec carry out research and development activity.



**PRINCE EDWARD ISLAND**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
SEPTEMBER 1995  
SUMMER ISSUE

## OVERVIEW

In P.E.I., all indications are for 1995 to be another year of growth, with GDP projected at 2.5%. The primary sectors of agriculture, fisheries and tourism look very positive. The fixed link is half finished and continues to stimulate the economy. In the construction sector, new projects continue to be announced to add to continued growth.

The fiscal picture for the Government of P.E.I. looks very positive, as Moody's Investors Services of

New York has confirmed P.E.I.'s long-term debt rating at A3. In residential construction, however, there will be a continuing drastic decline in the number of housing starts. According to CMHC, there was a decrease of 42% to 1994. Also, the average resale price of a house on P.E.I. has decreased by up to 10%.

## INDICATORS

Maritime Electric reports that the consumption of electrical power for the residential sector shows very little growth, if any. The commercial sector, however, continues to increase at a 3 to 4% annual rate. Maritime Electric predicts that the industrial sector will continue to grow because of recent announcements such as the food park in Summerside and the cardboard box factory in the Borden area.

Island Telephone Limited has noticed some growth from the business sector with an increase in long distance activity.

The *Guardian* of P.E.I. reports an increase in commercial advertising, with growth in the number of ads. The mood of retailers, who expect growth to continue, is very positive.

Labour force data for July 1995 shows the unadjusted estimates indicating a continued year-over-year improvement. Employment increased by

3000, which was greater than the growth in the labour force and, as a result, there were fewer unemployed. The unemployment rate was more than 2% lower in July 1995 than it was at the same time last year.

CMHC predicts that housing starts for 1995 will decrease by more than 40%. It predicts only 390 housing starts for 1995, compared to the 669 total

for 1994. CMHC also reports an 11% decrease in the resale price of a home. It blames the stagnant housing market on a lack of employment opportunities on the Island and residents' fears about income security, particularly in Charlottetown. As well, the growth that Summerside has experienced over the past few years has started to level off or even decrease. Despite the drastic decline this year, activity is expected to pick up in 1996. CMHC expects about 450 starts for next year.

The Conference Board of Canada expects the real GDP to be at 2.5% for 1995, and 2.4% for 1996. It expects the P.E.I. economy to post the strongest performance in Atlantic Canada and the third-strongest in the country. These predictions are based on the continued construction of the fixed



link along with other projects recently announced in the non-residential construction sector. In addition, all reports from farming, fishing and tourism are very positive.

## MOOD

The mood of the province remains positive but cautious. Various construction projects continue to be announced. The latest announcements are a cardboard box factory, an interpretive centre and a commercial village to boost the Borden-Carleton area.

In Souris, Canadian Pan Xi Dim Sum, a Chinese company based in Guangzhou, will build a \$6.5-million plant and will be the first occupant of the recently announced \$51-million Eastern Kings Redevelopment Souris Food Park. The new Small Fry Snack Foods plant is nearing completion and the expansions at both the Irving and McCain potato processing plants are continuing as well.

On the fixed link construction project, activity is moving from the fabrication yard to assembling the bridge in the strait.

Island Fertilizers has announced it will build a new fertilizer blending facility at Rollo Bay starting this fall. Manager John Scales said the new plant being built is in direct response to the province's expanding potato industry.

The tourism sector predicts another banner year compared to 1994.

In agriculture, farmers increased the acreage planted to over 100 000 acres to meet an expected increase in demand from both the processing market and the seed market. Although the farmers are predicting good yields, harvesting is only starting. Central P.E.I. has seen some dry conditions, which could bring yields down.

In fishing, shore prices are at record levels making for an excellent year.

## KEY SECTORS

### Manufacturing

Manufacturing shipments to date are up by 15% over 1994. This increase in growth is evident in all sectors including fishing, food, manufacturing and forest products. The most notable increase has

been in the manufacturing sector and is mainly attributable to the new Aerospace Centre for engine and airplane body overhaul, located at Slemon Park in Summerside.

### Resource Industries

Lobster landings for the spring fishery have increased on P.E.I. by 10%. Fishery workers also saw record-breaking prices for their landings. The snowcrab fishery saw an increase in landings to 1 600 tonnes, up from 1000 tonnes last year. Here again, fishery workers received record-breaking prices. A moratorium is still in effect on the ground fishery for cod, hake and redfish. The herring fishery saw increases in prices over last year of \$.02/lb.

All reports on the aquaculture industry look very positive. The demand for mussels exceeded supply, although catches are increasing. In the crab fishery, quotas for individuals were reduced to accommodate more people. Through a lottery, 88 licenses were distributed. The tuna fishery is in progress and looks quite promising. Atlantic fishery workers are fishing on an increased quota over last year at 657 tonnes, compared with 408 tonnes in 1994.

### Agriculture

There was an increase in total potato acreage planted to over 100 000 acres, up from 92 000 last year. Strong demands are predicted for all types of Island potatoes — table, seed and processing. Ivan Noonan of the Potato Marketing Board states: "The export market into the U.S. looks good for this year. The U.S. is a market that has been down over the past few years."

With the expansions at both the Cavendish and McCain potato processing plants, along with the completion of the new Small Fry Snack Foods plant in Summerside, demand will increase by 366 million pounds on P.E.I. alone.

Demands from export markets look very good with a few boats arriving already for new potatoes for export markets. All indications look to another excellent year, although that is hard to predict at this time.

There are a few concerns connected with the potato industry. Can the P.E.I. soil meet the demands put on it for increased yields from year to year? For

this year, will yields be as great as last year? There were areas on P.E.I. that experienced dry conditions which could mean a smaller potato. Harvesting is just starting and we should have a good estimate on what yields look like in the next few weeks. More land will become available, however, for the growing of potatoes in eastern P.E.I., where this was the final year for the growing of tobacco.

### Services

The year 1995 appears to be another good one for tourism; on a par with or better than last year's record 760 000 pleasure and business travellers, who spend more than \$154.3 million.

Dave Bryanton, Manager, Research Division, Enterprise PEI, states: "Preliminary statistics from May 14th to the end of July indicate a 6% increase in total visitor traffic from 1994 with a corresponding increase in visitor expenditure. The increase is not attributable to any one market as all markets showed a similar increase."

The month of August was also strong with Marine Atlantic reporting the traffic level on a par with that of last year.

The fall visitor season is predicted to be similar to last year's as well. Don Cudmore, General Manager of the Tourism Industry Association of Prince Edward Island, is pleased with the early reports and suggests: "Motorcoach traffic looks very strong and the touring seniors market from the United States is beginning to arrive."

The meeting and convention business has maintained its strong position for the fall season.

"Over the next three months, meetings and conventions of more than 50 people are expected to generate between \$2.9 million and \$3.4 million in revenue. This is comparable to last year's record," says Valerie Downe, General Manager, PEI Convention Bureau.

The public service continues to receive media attention, as does the elimination of the federal freight subsidy for transportation.

The provincial government is planning to reduce the cost of health and social services by between \$12 million and \$14 million over the next three years. It hopes to accomplish most of this by substituting cheaper home-based care for institutional care. The Federal Program Review which calls for some downsizing in various federal departments is now being implemented.

In the construction sector, the following projects are currently being worked on: the fixed link project will continue to lead the economy into 1996, the new Small Fry Snack Foods plant in Summerside and the McCain expansion are nearing completion, and the expansion of the processing plant at Cavendish Farms is under way. Most of the other projects, such as the cardboard box factory, an interpretive centre and a commercial village in the Borden-Carleton area and the Souris Food Park, are soon to begin.

### OBSERVATIONS

To summarize, the past three months have been very positive for P.E.I. All figures for the fishing and tourism sectors appear excellent. All indications for the agricultural sector also look good, but harvesting of potatoes has just begun. Construction in the residential sector was dismal this year, but indications for 1996 look better. Non-residential construction remains strong and should continue into 1996.



**ONTARIO**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
**SEPTEMBER 1995**  
**SUMMER ISSUE**

**OVERVIEW**

Having endured a technical recession during the first half of 1995, the Ontario economy is expected to strengthen during the latter part of the year.\* This is due to a stronger U.S. performance and an increased demand for exports.

Counterbalancing these trends will be the need to reduce inventories accumulated during the first two quarters and consumer caution, which has been intensified by the impending Quebec referendum. It is now expected that 1995 provincial growth will be in the 2.4 to 2.8% range.

Mid-term prospects appear tenuous, as significant downsizing, particularly in the public sector, limits consumer demand and deficit reduction reduces government spending. After a disastrous 1995, residential construction will see some recovery. This, along with reasonably strong investment in machinery and equipment, will help support an expanding export market. Export increases, however, depend on continuing U.S. demand, which may be difficult to sustain over the medium term considering that the U.S. has already experienced more than four consecutive years of growth. Modest growth of approximately 3% is projected for 1996.

Because of Ontario's poor economic performance during the first half of 1995, seasonally adjusted employment dropped by 36 000 jobs during the first eight months of the year. There were job losses in the construction, trade and public

administration sectors. The unemployment rate in August was 9%, up slightly from the beginning of the year. Private-sector businesses are not likely to do much hiring for the remainder of the year, and this will put upward pressure on the unemployment rate.

Nominal after-tax corporate profits declined during the first part of the year, along with real personal disposable income. These adjustments, however, have been relatively modest.



**INDICATORS**

Leading indicators signal some recovery in provincial growth after a lethargic first half.

Domestic automotive sales recovered in August, up 5.9% over the previous

August, although on a year-to-date basis they were still down 8.4%. Preliminary indications are that September sales were also up.

Housing resales in the greater Toronto area, spurred by lower interest rates, were also up in September and marked the fourth consecutive month that sales have surpassed the previous year's performance. However, average prices remain below last year's levels. Retail sales, after a fall-off in March-April, have bounced back in May-June, and cumulative sales are up 6% over the previous year.

Ontario Hydro reports strong energy demand May through July, after declines during the first four months of the year. A large national temporary

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

help agency reports that there was a big drop in demand in April, but that requirements for workers have since picked up slightly.

There is also some sign of renewed strength in the province's manufacturing industry with unfilled and new orders beginning to rise at the outset of the third quarter.

Other indicators do not yet show an improvement, reflecting the ongoing restructuring within the economy and the cautious attitudes of participants.

As of July, both personal and business bankruptcies remained consistently higher on a monthly basis than in 1994. The Ontario help-wanted index fell to 103 in August (1991 = 100), a drop of 5% since April.

Commercial vacancy rates remain stubbornly high at 23% in the City of Toronto. For the second time this year, CMHC has revised annual housing starts for the province downwards; the total is now only 37 000 units.

Some improvement is forecast, however, as the economy moves into 1996, although this has not yet been reflected in the value of new residential building permits.

While the first part of the year showed declines in the number of social welfare and Unemployment Insurance claimants, the slowing economy has brought about a significant July increase in new U.I. claims. The active claimant population currently stands at 394 301, up from 377 232 in June. At this time, total social assistance caseloads continue to fall, due in part to administrative changes.

## MOOD

The current mood of manufacturers is somewhat less pessimistic about production prospects than it was in the second quarter. Nevertheless, a slowing economy, inventory build-up and weak consumer demand are key concerns which caused the Conference Board of Canada's Business Index to fall to a 15-month low. Only 50.8% of business

leaders surveyed believe their firm's profitability will improve, while the prospects for increased employment remain dim.

According to the Conference Board of Canada's Index of Consumer Attitudes, Ontario is the only province to register improved consumer confidence. Ontario consumers are more likely than other Canadians to purchase big-ticket items, although they remain concerned about employment prospects and household finances.

The Environics poll of June-July indicated that the general public felt the economy was getting weaker. Almost 40% of Ontarians cited unemployment as the most important problem facing Canada today.

## KEY SECTORS

### Resource Industries

Ontario farm cash receipts were about \$2.85 billion during the first half of 1995, approximately the same as a year earlier. On an annualized basis, the second quarter saw some weakening in tobacco, poultry and hogs, while nursery, corn, cattle and dairy product receipts were up. Prices are improving for cereals, oilseeds and eggs, but declining for cattle and poultry. Hot summer weather has caused an early harvest.

The elimination of the Western Grain Transportation Act is expected to curtail an eastward flow of feed grains, particularly corn, and lead to new Ontario opportunities. Capitalizing on the potential for movement of grains north-south, however, will mean moving to larger-scale grain storage facilities and developing shortline rail operations following rail privatization and deregulation.

In real dollar terms, January-July food processing industry shipments match those of the same period last year. An increasing proportion is being exported, however, with real-dollar shipments up 7% over 1994. Shipments in the beverage sector are up by over 3% this year, led by a strong performance in the soft drink industry.

Pulp and paper prices have risen more than 50% from last year and mills are running at close to full capacity, which is especially good news for

\* According to Ontario Provincial Accounts, real GDP at market prices was down 2% and 4.4% in the first and second quarters, respectively.



Northern Ontario. Profitability has returned to the sector after four years. Recent changes to make the industry less susceptible to cyclical trends include the closure of inefficient paper machines, more flexible labour contracts and the development of new markets in Southeast Asia. Profit taking and investment in environmental equipment continue to take priority over expansion.

While lumber prices have eased from their high levels of last year, the sector remains profitable. The recent drop in U.S. interest rates translated into a 6.1% increase in new home sales in June. Analysts believe that this will lead to renewed demand for construction material south of the border and give the industry a second wind. Renewed threats of U.S. countervailing action against Canadian softwood lumber could, however, threaten sales in 1996.

**Panelboard and oriented strandboard (OSB)** prices remain strong, which is good news for the OSB mill opening in Wawa next month.

**Particleboard and MDF** demand is also good with some mills currently in sold-out positions as a result of excellent secondary manufacturing demand.

Metal prices remain strong, with silver, platinum and copper at near twelve-month highs. Gold, nickel, lead and zinc prices, while down from their peaks, are still yielding good returns. Within the sector, there is concern about depleted reserves.

In November, Noranda's Geco copper/zinc/silver mine in Manitouwadge will close due to a lack of ore. Exploration activity in Northern Ontario is on the rise, but there is no public knowledge of new finds at this time. Elliot Lake's last uranium mine is also slated for closure in 1996, but the issue here is one of low-grade ore.

With the decline of virgin reserves, many mining operations are increasingly using scrap in their smelting and refining operations. The industry wants Canada to work against export restrictions of scrap materials from other jurisdictions in order to maintain valuable sources of supply.

The value of Ontario's primary metal output was up 19.5% during the first seven months of 1995 compared to a similar period a year earlier. Led by the steel industry, the sector has benefited from strong export demand. Steel producers report some

moderation in prices. Concern about ongoing trade harassment from the U.S. industry continues to be a major issue. Throughout the sector, steps have been taken to downsize inventories. Production, which dropped in June, is expected to pick up shortly.

Production of Ontario refined petroleum products dropped 11.8% in the first seven months of the year. The larger chemical sector, however, has more than offset this with increases in shipments of 13.5%. This strong performance is led by **industrial chemicals and plastic and synthetic resins**. Exports of these commodities are significant. In the plastics industry, demand from the packaging and automotive industries has been instrumental in stimulating growth. The price of synthetic resins now appears to be stabilizing or falling slightly, which has positive implications for profitability as resins represent 50% of input costs in the plastics industry.

### **Manufacturing**

**Automotive assembly** in Canada is projecting a record 2.6 million units in 1995. Ontario, which enjoys the vast majority of this output, benefits from assembling 4 of the top 15 best-selling cars and 6 of the top 15 trucks in North America. Further good news is Toyota's intention to boost production to 200 000 units from 85 000 units by 1997 through a \$600-million investment in its Cambridge plant. Honda Canada is also considering an expansion at its Allison plant. Additional production opportunities are projected from the recent auto trade truce between Japan and the U.S.

New car sales, however, have not been keeping abreast of production, which has led to some inventory build-up and some temporary plant shutdowns. Domestically, sales through August are down 8.4%. The cause is partly weak consumer confidence, but industry analysts are increasingly looking at the issue of affordability to explain the decline. Car prices rose an average 7.2% this year and will rise another 5% to 8% in 1996. A weak Canadian dollar and government-ordered pollution and safety equipment are blamed. In the non-domestic market, exports sales climbed by 31% during the first half of the year.

Shipments by auto parts suppliers are expected to hit \$21 billion this year, 11% higher than the

record set last year. This has led to 4 000 new jobs and \$1.6 billion of new investment. The sector is viewed as being very competitive with the U.S., and there is evidence that North American assemblers are sourcing increasingly in Canada.

Input suppliers, who have been trying to impose higher prices on commodities such as aluminum, steel and plastic resins, are easing price increases due to the build-up of some auto inventories and a weak domestic market. Original equipment manufacturers (OEMs), however, continue to put pressure on parts suppliers to reduce prices as they downsize their supplier base. This is forcing survivors to make significant productivity improvements.

In other transportation news, Canadian National Railways recently announced a decision to purchase 394 new locomotives over the next 15 years from GM of London, Ontario. The locomotives, valued at approximately US\$2 million apiece, will help stabilize employment at the GM factory. Layoffs of 500 employees had been slated for January, but this may be modified.

Driven largely by export demand and the auto sector, tool and die manufacturing continues at a high level of production. Year-to-date shipments are up nearly by a quarter over last year. Another segment that has benefitted has been the stamped and coated metal products industry. Led by these sectors, metal fabricating has generally shown good growth and generated new employment.

The plastics industry is also doing well, the exception being segments that are construction dependent, such as plastic pipes. With recent moderation of input costs, the sector has achieved some breathing space on operating margins, and profitability could improve. The industry, which had negotiated a sector strategy under the now-defunct provincial Sector Partnership Fund, is currently trying to salvage the initiative. As a minimum, industry leaders would like to see the proposed Mississauga-based Plastics Technology Centre funded and are continuing to seek government involvement in this.

The electrical industrial equipment and communications/energy wire and cable industries have performed well in 1995 and created a strong recovery in the electrical products sector. However, the industry expects that government

cutbacks to health and education, leading to reduced capital spending on institutions, will have a negative impact on business in 1996 and beyond.

For the time being, the major problem area is in **major appliances**. Domestic unit sales are off by 12% over the first seven months of 1995. The industry attributes the drop to the weak housing market and consumer uncertainty. Many analysts believe that this sector, which has been steadily declining since 1989, will not sustain itself over the long run unless it can become highly specialized. The impact of North American free trade is cited as a factor.

Other industries that are primarily consumer-oriented, like appliances, are having a difficult year. Ontario textile output has been weak in 1995, particularly in the second quarter. Clothing has fared somewhat better, especially men's clothing, which accounts for about 42% of the sector. Men's clothing has found a good market niche in the U.S. and has been able to offset declining domestic sales with exports. Unfortunately, because export quotas are now being reached, there is little potential for further growth in this area. Activity in women's apparel is up slightly, while children's wear shows an overall decline.

After years of restructuring, there is positive news from the furniture sector. While sales during the first half of 1995 were relatively flat, home furniture companies report a recent increase of 3% to 10% in domestic sales and a jump of 10% to 50% internationally. This parallels improvements in the North American housing market.

While office furniture sales used to be quite dependent on non-residential construction, a new trend to direct retailing by the large new superstores has given the industry an unexpected lift. The trend to self-employment and home offices is fuelling this trend. Like other consumer-oriented businesses, the office furniture industry wants the sales tax system simplified. It would also like regular reports on projects that its members could bid on in the U.S.

#### High Technology Industries

Among high-tech industries, the office, store and business machine sector rose 28% in the second quarter. While robust, this growth is down from the first-quarter increase of 60%. The arrival of

the Information Highway, Internet popularity and declines in the costs of computers, along with the increased use and sophistication of business applications, has led to a constant need to upgrade and expand equipment.

The software industry has been dynamic for similar reasons. With the convergence of telephone and computer systems, the multimedia sector is also attracting much interest. Despite the presence of several large companies, many small firms continue to develop across the industry. For these companies export markets are critical, as is attracting the interest of the investment community. Firms find the SR&ED tax credits helpful and are anxious to see them continue.

Shipments of telecommunications equipment are growing at a faster rate in the second quarter (22%) than the first (2%). Business is increasingly becoming more global and unaffected by domestic economic conditions. Major re-organization is taking place within Nortel, an industry leader. The company announced plans to close its Brampton switching facility with a loss of 580 jobs. It intends to transfer this work to its Brockville plant, where 400 new jobs will be created.

Production was flat in the second quarter for the pharmaceutical and medicine industry. Firms put the blame on higher interest rates in the spring and anticipation of big government spending cuts in health services. Firms which had export sales reported that conditions were better. Many in this industry, like those in the electronics industry, complain that banks are not prepared to share in the risk of their business, which makes financing an on-going problem. Smaller firms are concerned about the cost-recovery proposals by Health Canada for product testing and notification.

Business in advanced manufacturing technologies (AMT), which parallels investment in new machinery and equipment, will remain strong throughout 1995. Regulatory requirements, such as those faced by the pulp and paper industry, has also helped some firms. A recent poll by the Canadian Manufacturers' Association, however, suggests that business investment should drop off over the next two years. While 38% of respondents were investing currently, only 30% had investment plans for 1996.

Weak demand for goods and services is reported in the environmental industry, largely due to cuts in government spending in both Canada and the U.S. This is leading to increased competition from foreign companies and a trend to mergers and acquisitions within the industry. New markets are being sought in Southeast Asia, with an industry trade mission currently in the field. The companies surveyed report little investment, although those that have export business have done some hiring of technical and sales staff.

The aircraft industry in Ontario has exhibited some recovery this year, although there was a slight drop in production in the second quarter compared to the first. Seventy percent of production goes to export. Most of the good news comes from Bombardier, which has positioned itself in the strongest segments of the industry — the commercial regional aircraft and business-jet markets. The company's Toronto plant will build the new Dash 8-400 turboprop, which will create more than 1 000 new jobs by 1997. The same plant will also build the wings for the new Learjet 45 executive jet that has just entered production. Other parts of the industry related to servicing the large commercial carriers and defence markets continue to be weak.

The aerospace sector is relatively flat currently, but remains a strategic market for a number of Ontario companies. The aircraft and aerospace sectors have been a source of significant R&D in the past. With the decision to cut the Defence Industry Productivity Program, industry sources suggest that this activity will diminish.

While hurt by government cutbacks, the defence industry is less vulnerable because of its surveillance/peacekeeping orientation. The recent federal government order of 240 armoured cars, with options for a further 441, was a significant contract for GM in their London plant and will secure employment there well into the next century.

#### Services

Shopping centres report retail sales volumes up 7% in Ontario on a year-to-year basis, led by sales of children's and women's clothing, sporting goods, and jewellery and gifts. Soft markets were reported in shoes, household furnishings and appliances.

While second-quarter sales were weaker than first-quarter results, inventories are now being depleted and retailers are hopeful of a good year end. Consumers are not expected to start spending much more, however, especially considering their high personal debt loads and low savings.

Retail bankruptcies, while high, are down marginally from last year, and shopping malls report that they are currently leasing more space than is being vacated. Sector restructuring is still evident as many domestic chains, such as Zellers and Canadian Tire, carry out aggressive building programs to increase their store size and better compete against new U.S. mass merchandisers. This has led to significant investment and hiring in this segment. At the other end of the scale, small chains and independents are increasingly being squeezed off the retail scene. As a result, total sector employment remains flat.

Hotel occupancies are running at 70% in Toronto, the best they have been since 1988. This trend to higher occupancies is reflected in every tourist region in Ontario, with the exception of Ottawa. Hotels/resorts are also reporting 5%-6% increases in room rates, a welcome development after several lean years. The low Canadian dollar and improved promotion are credited with attracting increased foreign travel to the province and keeping Ontarians at home.

During the first seven months, there were 3.9 million U.S. visitors and 1 million overseas visitors — figures which for the first time in recent memory come close to balancing the number of Ontarians travelling abroad. The Metro Toronto Convention and Visitors Association reports a very strong year for 1995. Next year, it is reported that there will be even greater numbers hosted at local convention facilities, including 15 000 American Psychologists and 10 000 delegates of the Risk Insurance Management Society.

Many aspects of business services have been affected by cutbacks in spending by the public sector and weak construction activity. Domestically based consulting engineers, architects and contractors have seen even "firm" projects, such as the Eglinton subway, non-profit housing and infrastructure initiatives delayed or cancelled in the past few months. Problems for contractors have been further exacerbated by a province-wide strike by drywall installers and

tapers. For those who have sought offshore business, prospects have been better. While these groups look forward to lower interest rates, they remain concerned about access to credit.

Management consultants report improved opportunities, particularly as many companies are contracting out for services rather than maintaining them in house. The lower Canadian dollar is helping to secure new foreign business.

The design industry, particularly as it relates to packaging, is providing new export opportunities. Asia is an excellent fledgling market.

Lawyers who work closely with the legal aid system will find tighter rules limiting caseloads as the province tries to make the system operate within its means.

Employment agencies, which noted a large drop in business in April, have noted a slight pick-up recently. At this time, very few employers are converting part-time positions to full-time.

With increasing volumes of trade, custom brokers are enjoying growth. This business is becoming increasingly global, however, as the recent sale of Robinson & Heath to U.S. interests shows.

## OBSERVATIONS

Ontario wage settlements have been gradually moving upwards. In the second quarter, they averaged 1.3%, up from 1% in the first quarter and .4% a year earlier. Private-sector settlements continue to be in the 2% range, while those in the public sector are under .5%. Manufacturing settlements, which lead the private sector, have been influenced by recent settlements of 3.7% in the metal fabricating and wood industries.

Further labour negotiations in 1995 will take place at McDonnell Douglas, Bell Canada and Canadian Airlines. In September 1996, the auto industry contracts expire. The recent three-year agreement settled with Cami of Ingersoll for annual wage increases of 2.9% to 3.1% could be a precedent. On March 31, 1996, Ontario's social contract involving 180 000 public sector workers also expires.

Most exporting companies attribute their foreign success to the current low value of the Canadian

dollar. Managers generally indicate that they are very competitive at or below a Canadian exchange rate of US\$.80. At an exchange rate of between US\$.82 and US\$.84, many feel they would lose their competitive advantage.

In its recent Speech from the Throne, the new provincial government signalled its intention to hold firm to the agenda articulated in the Common Sense Revolution. It intends to cut provincial income-tax rates, reduce business costs and regulation, re-establish the "balance" between employers and workers, refocus government on core business and reduce the deficit.

Aside from the cutbacks previously announced on July 21 and the legislation that it has earmarked for repeal, the government has given few specifics as to how it will attain these goals. Further details are expected to be made public in mid-November, when the government delivers an economic statement. While many provincial business programs remain frozen, business generally remains highly supportive of the new government and its agenda.



**NOVA SCOTIA**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
**SEPTEMBER 1995**  
**SUMMER ISSUE**

## OVERVIEW

Nova Scotia's lack of real growth during the last quarter has been attributed to continuing public sector restraint and sluggish employment activity. Employment growth will continue to be modest, averaging only .7% over this year and next compared to growth of 3.1% in 1994.

Weak employment growth and dampened consumer confidence will be reflected in low retail growth as consumers hold on to any savings.

For Nova Scotia, the Conference Board of Canada predicts an overall 1% growth in GDP this year and a 1.1% increase in 1996.

Tourism will continue to be one of the fastest growing sectors in the province.

## INDICATORS

Increased numbers of tourists came to Nova Scotia this summer for major events such as the G-7 economic summit, the Nova Scotia International Tattoo and the 250th anniversary of Fortress Louisbourg. The low dollar and the opening of two new casinos were extra attractions. Tourism in Nova Scotia should top \$1 billion in 1995.

The August 1995 seasonally adjusted (trend) unemployment rate dropped .9 percentage points to 12.1%, the largest monthly drop in Canada. The continuing decline, (13.8% in July 1994) is partly

attributed to the drop in the labour force participation rate — 59.7% in August 1995, down 1% from 60.7% in August 1994.

While total employment rates were encouraging, the shift from full-time employment (down 3 000) to increases in part-time employment (up 6 000) is disappointing. After significant gains in full-time employment for the July 1994 to April 1995 period, the July 1995 full-time employment in Nova Scotia represented 82.4% of total employment versus 84.2% a year ago.



Other trends to note are the decline in employment opportunities for young persons (15-24 years) and a drop in the number of persons aged 45-64 in the labour force. The latter could be associated with an increase in either voluntary

or involuntary retirement.

Canada Mortgage and Housing's rental market report blames the weak housing market for a largely stagnant rental market in the Halifax area.

Although interest and mortgage rates are attractive, and there are significant price discounts in the single-family housing market, Nova Scotians remain tight-fisted amidst rumours of further fiscal restraint and industrial restructuring.

Retailers in older, smaller malls are facing vacancy rates in the double digits with the prediction that consumer debt will continue to frustrate retail growth. Retail sales predictions are for a decline of .9% in the first quarter and an overall retail sales growth of 1.4% for 1995.

Manufacturing shipments are up by 10.2% for the first six months of 1995 compared to the same period last year. There have been sizeable employment gains in this sector — ahead by 1 000 in August to 5 000 more than August 1994 — with approximately 50 000 now employed in various aspects of the industry. The key sources of this expansion — shipyards, railcars and automobiles — are expected to fuel the growth of the Nova Scotia economy.

The number of businesses operating in Nova Scotia is up 3.3% over the 1989 level; however, employment in these businesses declined 5.7% over the same four-year period.

The Port of Halifax saw cargo business increase by almost a third (31%) for the first six months of 1995, compared to the same period last year. About 15% of the increase resulted from cargo diversion to Halifax during the Montreal longshoreman's strike this spring. The addition of new routes or vessels to the port accounts for the remaining increase.

The completion of the Sarnia Tunnel means that shipping lines to Halifax can count on third-morning delivery of double-stack containers into the Midwest. Port officials hope to increase this type of business by 50% as a result of this increased competitiveness.

Deregulation has brought new carriers, including American Airlines and Northwest Airlines, to the Halifax International Airport. The increased traffic promises to have a positive impact on air transportation employment as well as tourism.

Following an \$8-million retooling, the first Volvo 850 front-wheel-drive sedan recently rolled off the assembly line in Halifax. The easier-to-assemble model is expected to shorten delivery time. Volvo car buyers can now choose exact specifications from a menu of options and have their new 850 model delivered within three weeks.

Greater numbers of physicians are being lured to the United States with prospects of better remuneration, more client satisfaction and overall challenge. This growing doctor shortage is starting to reach crisis proportions in rural Nova Scotia, where up to 4 000 residents have been left without a physician.

Foreign exports totalled \$644 million for the first quarter of 1995, an increase of 18% over the same period for 1994. Of the four leading exports, wood pulp increased by 106% over the same period for 1994. Exports to the U.S. increased by 12.3%, continuing a four-year trend. Exports to other countries also showed improvement — Asia up by 95% and South America and the Caribbean up by 56%. Exports to Japan declined by 49% over the last quarter of 1994.

Reaction from Nova Scotia fishery workers to Ottawa's decision to slash \$30 million from the Atlantic Groundfish Strategy (TAGS) has been mixed. Fishery workers must now report earnings for all of the weeks in which fish were caught, as opposed to the week they were sold. Some see it as a way to end the current abuses while others warn that it might be a preview of further federal cuts.

ITT Sheraton opened its second casino in Sydney, Cape Breton. After three months in operation, the Halifax casino is reported to be doing well; however, the company hopes to be more competitive now that it has won a decision that allows alcohol consumption while gambling.

Residents in the Cumberland and Colchester areas of Nova Scotia welcomed the return of the controversial \$26-million in funds for the bypass construction on a dangerous section of highway in the Wentworth Valley. There are now plans for toll-booths on the new 45-kilometre stretch of highway, but not on the existing roadway near Oxford.

## MOOD

A recent Canadian Federation of Business survey rated sales taxes as the number one issue, followed by a slow economy and a reluctance to spend on the part of consumers. Respondents support a harmonized system of federal and provincial tax regimes to both streamline compliance costs and reduce consumer confusion.

A recent forecast from the province's finance minister shows Nova Scotia ending the year with a small surplus in the operating budget.

Peter O'Brien of the Canadian Federation of Independent Business is not as optimistic, saying,

"We need something to stimulate the economy of Nova Scotia." Part of the problem stems from the province's traditional reliance on the greater Metro Halifax area to boost the economy.

The good news comes from Cape Breton. Eileen Oldford, Executive Director of the Cape Breton Development Authority, reports evidence of a shift from historical dependence to partnering. At least 2097 short-term jobs and 482 long-term jobs resulted from major infrastructure projects under the Cape Breton County Strategic Economic Action Plan. Unemployment was at 20.4% in July 1995 — down 5.3% from 25.7% in July 1994. The partners involved in the plan represent all levels of government, the private sector, the community at large, education and labour.

## KEY SECTORS

### Manufacturing

Employment opportunities have been created as a result of a major expansion at the Pratt and Whitney aerotech firm outside Halifax. To fill the 30 new positions, the company is examining the possibility of bringing in foreign workers, because there is a local shortfall in the type of skilled people needed, according to Plant Services Manager Ivano Andriani.

### Technology

Internet activity has shown phenomenal growth so far this year. The amount of weekly traffic (information) sent from Nova Scotia has increased 238% since January 1995, while the incoming traffic increased 95% over the same period.

The computer-training industry continues to grow, even for basic training. Community colleges are starting to meet the demands of the computer software industry. Improvement is noted in new growth areas such as multimedia. Skilled computer programmers are needed in technologies such as Virtual Reality, now being assimilated into the fields of medicine, engineering, education and communications.

Overall, information technology companies report that strategic alliances are important for remaining competitive in both domestic and international markets. Two examples are Dartmouth-based NSTN Inc. and Internet Inc. of Ottawa forming a merger to create Canada's largest carrier of Internet traffic, and Quorum Growth of Toronto investing in Dynatek Automation Systems of Bedford, N.S..

Plans are under way to promote **SOFTWORLD '96**, to be held in Halifax. A survey of software firms indicated that, while some firms continue to invest in research and development, others are concentrating their efforts on major marketing campaigns.

## Resource Industries

### Forestry

There is increasing interest in value-added hardwood operations, including the recent startup of a small hardwood panel plant in Tatamagouche and a flooring billet plant in Sampson Cove, Cape Breton.

The pulp and paper industry and the provincial economy are benefiting from 60% increases in pulp and 55% increases in newsprint over the past year.

The United States market continues to be favourable for the sawmill industry, with fair prices prevailing.

In building products, as many as 20 Atlantic firms have been concentrating on entering the Japanese market.

### Aquaculture

Aquaculture has grown from a \$2.4 million industry in 1988 to \$5.6 million in 1994. With greater cooperation and diversification, industry and government have worked to develop this industry in Nova Scotia. In particular, there has been much progress in the area of steelhead salmon grow-out sites. Twelve sites are producing at this time. Studies are currently under way to determine the impact of the added nutrient loads on local ecosystems.





**NEWFOUNDLAND**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
**SEPTEMBER 1995**  
**SUMMER ISSUE**

## OVERVIEW

The Newfoundland economy grew about 1% during the first half of 1995 and is expected to end the year with an overall real GDP growth of 1.9%. The province's economic strengths so far this year include mining, newsprint, the Hibernia project, the shellfishery and tourism.

The Voisey's Bay discovery of mineral deposits has caused the largest claim-staking rush in the province's history and is expected to create hundreds of jobs in the mining industry. Iron ore production is at record levels.

The province's paper mills have had a good first six months in 1995, with newsprint prices up more than 40% over last year. With world demand for newsprint continuing, prices are expected to continue to rise.

Hibernia construction and employment are at their peak this year. At the end of June, the project had 5760 employees, but this number is expected to drop to 3500 by year's end. Eighty-six percent of Hibernia employees are Newfoundlanders.

While the groundfish industry is in poor shape, the shellfishery is making a significant contribution to the province's economy, especially with catches of shrimp and crab. Tourism is another bright spot. The Department of Tourism, Culture and Recreation reports that the number of non-resident visitors to Newfoundland was up 12% for the first half of 1995. As well, the number of inquiries for

information was up 30% over the same period last year.

Retail sales were up for the first half of 1995 and are expected to stay on the upswing for the remainder of the year. As of June, retail sales had risen 3.5% over June 1994, and members of the retail industry predict this strong growth to continue for the rest of 1995. One industry segment bucking

the trend is the new motor vehicle trade, which is seeing its lowest sales in the last decade. The first half of 1995 recorded a sales decrease of 20.2% over the same period in 1994.

While the inflation rate in Newfoundland grew 1.6% from June 1994 to June 1995, it remains below the national average and is the lowest of any province in



Canada.

Unemployment is down 2% to 19.6% for the first half of 1995 compared to last year's January to June rate of 21.6%. However, Newfoundland's unemployment rate is still above the national average of 10.1% and is expected to close out the year around 19%.

The economic outlook for the remainder of 1995 remains promising in industries that can count on growing global demand and outside investment. Newfoundland still faces some economic challenges, however, with housing starts expected to fall to their lowest levels since the mid-1960s and with some of the biggest public service cuts about to be made in the Department of Fisheries and Oceans and Transport Canada.

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

## INDICATORS

Housing starts in St. John's have remained at low levels during the first half of this year. In June, housing starts were down 42.7% over the same month last year and down 62.7% over the first six months of 1994.

New motor vehicle sales in the second quarter of 1995 were down 20.2% from the levels of the second quarter of 1994.

Business and personal bankruptcies continued to increase, and at the end of August were 620 compared to 549 for 1994, a rise of 13%.

## MOOD

In its second survey of the economy for 1995, the St. John's Board of Trade reports that a majority (65%) of the members of the business community expect economic conditions to remain the same during the next six months. Twenty-two percent expect conditions to improve, leaving 13% expecting conditions to worsen. This is on a par with survey results released in January of this year.

In its spring update, Informetrica Ltd. still anticipated an economic expansion rate near 2% for the Newfoundland economy in 1995. The overall outlook has changed little since 1994. Consumer confidence remained unchanged from the previous quarter.

## KEY SECTORS

### Manufacturing

In January, the Newfoundland Manufacturers' Association forecast an increase in manufacturing shipments of 7% for the year. At the end of June, the association reported the manufacturing industry was on the right road for attaining this increase. Preliminary figures show the gross value of manufacturing shipments totalled \$660.7 million as of June 1995.

### Services

The service sector is performing well. For the first half of this year, retail sales were up 2.7% from the same period in 1994. Retail sales for June were up 3.5% over June 1994. With the Christmas season to come and retail sales on an upward trend,

consumer spending is expected to continue to rise for the remainder of 1995.

The outlook for the tourism industry is excellent. The number of non-resident visitors to the province was up 12% in the first half of 1995 compared to the same period last year. This number will be even higher when the the peak tourist season is taken into account.

The 500th anniversary of John Cabot's landing in Newfoundland will take place in 1997, and it is expected that publicity and advertising from this event will help tourism for the years leading up to 1997.

## Resource Industries

In the fishing industry, the moratorium on cod along with plant and season closures have brought a new kind of fishery to the province. The focus is now on new species such as sea urchins, skate, surf clams and monkfish rather than on the traditional catches. The Newfoundland fishery is concentrating on these and other shellfish which have proven to be profitable.

The cod moratorium and the subsequent closure of other such fisheries have all but closed down the groundfish industry in Newfoundland. The future for this industry does not look promising. The Department of Fisheries and Oceans' groundfish stock status report released June 19, 1995, shows that most stocks remain at the lowest level ever observed and have yet to begin rebuilding. The fishing industry is expected to grow slightly by 1% to 5% this year and by 1% to 2% in 1996.

Aquaculture is increasingly being seen as a viable alternative to traditional practices. There are currently 300 individuals directly employed in aquaculture, and production is forecast to reach 1280 tonnes in 1995, up from 834 tonnes last year. Scallop farming, a growing component of the aquaculture industry, will benefit from the opening of the Belleoram Scallop Hatchery, the first of its kind in the province. There are currently seven commercial scallop growers in Newfoundland.

## Newsprint

Markets are strong in the newsprint industry. They are expected to remain so for the rest of 1995, but then the picture will become cloudy because of the

expected to reflect those of late 1995. Mills are operating at full capacity. Newsprint prices rose to US\$705 per tonne. The value of Newfoundland newsprint is up almost 40% to \$141 million from 1994 due to strong price gains and a lower Canada-U.S. exchange rate.

### **Minerals**

Iron ore production is up 10.4% over 1994. This, combined with higher gold shipments and added output from various smaller producers, has caused strong gains in mineral shipments.

The hottest topic in the province's mining industry so far this year is Voisey's Bay. The discovery of large nickel, copper and cobalt deposits at Voisey's Bay in late 1994 and subsequent announcements emphasizing the richness of the find have caused the largest claim-staking rush Newfoundland has ever seen. It is also believed to be one of the biggest finds ever recorded in the history of Canadian base metal exploration. By the end of 1995, about \$40 million is expected to be spent on mineral exploration in Newfoundland.

### **Offshore Oil**

Construction at the Hibernia site is on schedule for tow-out in mid 1997 and the first oil yields in late 1997. The GBS (concrete platform) was 60% complete by June 1995. A decision to transport Hibernia crude to market from an intermediate port in Canada is still pending. Hibernia is considering two sites in Newfoundland and one in Nova Scotia. Bids have been received.

There is also significant interest in petroleum exploration on the province's west coast. At least three more wells could be drilled in that area before the end of next year. Hunt Oil and PanCanadian plan to drill an onshore to offshore well from the Port au Port Peninsula this year, as well as an offshore well before July of next year. In addition, Talisman Energy has indicated intentions to drill on the offshore parcel currently held by Vinland Petroleum.

### **High Technology**

This sector has seen considerable growth over the past five years. Sources at the Newfoundland Alliance of Technical Industries indicate that sales in this sector during 1995 will top \$100 million.. This sector comprises more than 100 firms and consists of the following: information technology (60%); ocean/fisheries (15%); environment (10%); biotech/medical (10%); and aerospace/defence (5%). It is anticipated that this sector will continue to grow at the rate of 10% per annum.

## **OBSERVATIONS**

### **Provincial Government**

The regulatory reform initiative of the provincial government officially entered Phase 2 with the appointment of Mr. Justice Nathaniel S. Noel of St. John's as the Commissioner for Regulatory Reform. The commissioner's work will end in 1995 with the submission of a report to Cabinet with recommendations respecting all provincial subordinate legislation.



## NEW BRUNSWICK PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT

SEPTEMBER 1995  
SUMMER ISSUE

### OVERVIEW

The New Brunswick economy continued to expand during the first five months of 1995. According to Informetrica, economic activity for the entire year will increase by more than 2.7%. The gain will be largely driven by the export-oriented resource-based industries and by business service activities. This growth rate is .3% higher than that originally predicted for 1995 and one full point above the growth rate realized in the first three months of the year.

Mining, pulp, paper and electrical products are expected to be above-average performers. Informetrica predicts that, for the balance of 1995, reduced spending in both government and at the New Brunswick Power Corporation will dampen the overall economic performance of the province.

Tourism boomed as predicted with another banner year, largely due to an increase in travellers from central Canada and from the U.S. Essentially, the low Canadian dollar, which hovered around 73 cents to the U.S. dollar, encouraged Canadians to stay at home and attracted a considerable number of U.S. visitors.

Capital spending will increase by 12% this year, triple the national average. Statistics Canada reported that the province's domestic retail and wholesale demand grew 1.1% and 2% respectively in June. Total demand in Canada grew only .6% and .1% respectively during the same period.

### INDICATORS

Sherry Copper, Senior Vice President and Senior Economist of Nesbitt Burns, reported that New Brunswick's economy is one of the few in the country "still firing on all cylinders." The province therefore maintained its momentum despite the slowdown experienced in the rest of Canada.

However, Informetrica still maintains that the national growth rate will reach 4% by year's end.



The key driving forces in the province have been exports and retail trade. Led by forest products, the province's export activity was 25.2% higher from January to June 1995 than during the same period in 1994. Retail trade was a mere .5% higher in the January to July period of this year than during the

same period last year. Although seasonally adjusted sales figures have been rising since March, July registered a decline of some 3% over June.

Central Mortgage and Housing Corporation states that demand for new houses has been weaker than originally forecast. The revised third quarter forecasts have been adjusted downward to 2200 new housing starts. Overall, housing across the province follows the national trend which is at a 10-year low. Housing starts in the province are down 38.4% for the first seven months of 1995 over the same period in 1994, while houses under construction are down 23%. Resale property in Moncton is up by 8% over last year instead of by 5% as forecasted by CMHC. House prices in

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

Moncton are down slightly, but the resale market is solid, as demand equals supply. New house construction is considerably down in Moncton over last year. However, the 1994 starts level was high because many apartment units were built to accommodate low wage earners.

In Fredericton, consumers are postponing purchases of new homes until the province clarifies its plans to restructure its civil service. New house construction in this city is down 35%.

In Saint John, housing starts declined a dramatic 57% this year over the first six months of 1994, while resales dropped 10%. These downward trends are attributed to the possible layoff of 3500 workers at the Saint John shipyard and the labour disputes in the city. The housing market should return to "normal" when labour problems are resolved and new ship building contracts secured.

In northern New Brunswick, housing construction is up 32% over last year. This region is benefiting from the consumer confidence created by the prosperity of the pulp and paper industry. The province-wide good news is that non-residential construction is up 18% for the first six months of 1995.

Human Resources Development Canada reports that, in actual terms, employment rose by 6 000 in June 1995, a 1.8% increase from June of last year. The seasonally adjusted unemployment rate is down from 12.6% in June 1995 to 11.0% in July. The participation rate has dropped slightly from 59.7% to 59.2%. Statistics Canada reported that the number of UI recipients declined by 10.5% in March 1995 and by 10.7% in April as compared to the same months last year. The number of beneficiaries dropped to 41 620 persons in June 1995, a further 20.7% decline from May 1995. UI payments for the January to June period (1995) declined 9.4% over the same period last year.

Manufacturing shipments were up by 19.4% in the first seven months of the year compared to the same months a year earlier. This was about four percentage points higher than the national increase for the period. Exports from January to June rose 25.2% over the first half of last year. These gains were largely due to the performance of the resource sector, particularly pulp and paper, mining, and manufacturing.

Business bankruptcies for the first seven months of the year were up 3.4% over the same period last year. However, July saw a decrease of 10.5% over July 1994. New business incorporations under the provincial incorporations act increased by 3.3% on a year-over-year basis to the end of March 1995.

## MOOD

There is continued concern over high interest rates and job security in the province. Marilynne Trenholme, Minister of State for the Family for the province, recently tabled her report *Foundation for the Future: A Proposed Framework for Family Policy in New Brunswick*. Trenholme reported that most New Brunswickers surveyed stated that jobs are the first priority of each family.

New Brunswick statistics on income are revealing. In 1993, the latest statistics for which Statistics Canada figures are available, the average family after-tax income in New Brunswick was \$38 911, the highest in Atlantic Canada and only \$4000 less than the national average. However, on a per capita basis, New Brunswick has the second lowest wages in Canada.

Rod Hill, an economist at the University of New Brunswick, points out that the high family income was due to good labour force participation rates, which resulted in parents and even children contributing to family income. Hill adds that over the past eight years, family and individual incomes grew faster than those of the national average. He states that, despite these gains, income over the past 15 years has not improved very much. The slump in the housing and car markets confirm Hill's observations. Motor vehicle sales have declined 9% over the first six months of 1995. Consumers are very cautious about long-term financial commitments. However, the retail sales figures reveal that consumers have indulged in some spending.

Conversely, many sectors of the business community are optimistic, particularly the resource sectors, in which firms are predicting record levels of investments to accommodate the surge in exports. However, many smaller business owners express concern over the potential for higher interest rates.

Finally, while capital investment remains high, the construction industry in New Brunswick is faced with over-capacity. Some analysts state that the industry may be in for a "shakeout" if residential construction does not pick up.

## KEY SECTORS

### Manufacturing

The manufacturing sector continues to perform very well, riding on the strength of the province's resource sectors. The total value of production for all industries increased 18.1% in May 1995 over May 1994. According to the Canadian Manufacturers' Association, New Brunswick manufacturers must continue to keep costs down to compete internationally. If the dollar increases in value, say above US\$.75, many firms may lose markets.

There is some good news with regard to payroll taxes. A recent Statistics Canada study reveals that Canada, on average, has the second-lowest payroll taxes in the industrialized world — certainly lower than those of the U.S. Therefore it appears that concern over payroll taxes may be overstated.

### Services

The summer tourism season was once again a resounding success. The provincial figures may surpass \$725 million — a growth of almost 18% over the past two years. The Department of Economic Development and Tourism states that, if the current pace continues, "1995 could break all previous records." The revenue grew by \$110 million according to tourism officials. The department attributes the gain to more spending by tourists, and a recent survey by Price Waterhouse corroborates that view. Slightly higher room rental rates account for some of the gain. However, the province still has very competitive prices, with the average room rate at \$65. Among the 28 regions across Canada, New Brunswick room prices are the 3rd lowest.

A consulting firm is currently finalizing a survey of the Atlantic Region's commercial education and training sector. The analyses provided by the survey are intended to lay the groundwork for provincial and regional-level strategies for this

growing sector. One small business owner says that the commercial education sector would receive a considerable boost if the province establishes an international accreditation service to approve privately sponsored courses. The approval would allow such courses to be accepted by high schools, trade schools and universities in the province and around the world.

### Resource Industries

The shellfishery, consisting mainly of lobster and crab is heading toward a record year, and will perhaps see volumes and values greater than those attained in 1994. In that year, the shellfishery was worth \$143.5 million, a 39% increase over 1993. Aquaculture continues to grow; it is now a \$100-million-plus industry.

Farm cash receipts declined marginally in the first quarter of the year, from \$78.4 million in 1994 to \$70.7. However, the food processors, particularly the French fry makers, are expanding plant capacity to meet demand from South American markets.

Prices in the pulp and paper sector continue to increase. The profits have led to expansion plans which will reach more than \$1.4 billion over the next few years. Repap has recently re-opened the Atholville pulp mill which employs 300 persons in operations and construction of a new effluent treatment system. The company plans to begin construction of the Alcell pulp mill in the spring of 1996, representing an investment of \$300 million. Once in operation, the plant will be one of the world's most environmentally benign pulp mills, with considerable potential for upstream benefits from the use and possible production of ethanol and downstream benefits from the further processing of Alcell's co-products (lignin and furfural).

The mining sector has seen a turnaround, with world market prices creeping upward. The recent discovery of a new source of potash has raised the possibility of expanding potash production near Sussex. There also considerable interest in opening a mine at St. George to extract the rare metal indium which is used in the production of advanced technology products. Both the pulp and paper and the mining activities will create well-paying, middle-class jobs.

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

Advanced manufacturing output continues its double-digit growth rate: 21% in January, 12.6% in February, 11.3 in March, 13% in April and 15.7% in May. Most of the new production is exported. The **Information Technology Alliance** of New Brunswick has been given a \$500 000 kick-start under a federal-provincial cost-shared agreement, and a new executive director has been appointed.

The provincial government remains committed to aggressively promoting the adoption of ISO quality standards within the province's **electronics/electrical** sector.

### OBSERVATIONS

The Bank of Nova Scotia has confirmed that its small-business loan activity is remarkably brisk. Transportation loan business, particularly for trucking, is high. Many operators are still replacing old equipment that is now too costly to operate. Car loans are "holding their own," but the mortgage business is flat. The bank's representatives add that consumers appear to be concerned about job security.

An official from another bank states that government may have set the example for further downsizing in private industry. The reduction of more than 45 000 positions has indeed rocked consumer confidence. He says that his bank will apparently soon announce another round of personnel cutbacks. He adds that what Canada really needs is a national financial securities agency similar to the Securities and Exchange Commission in the U.S.

The Construction Association of New Brunswick expressed concern over the reduction in provincial capital and maintenance budgets. Apparently, provincial budgets have declined from \$200 million over the past several years to \$60 million. The association states that the industry in the province might see restructuring and many bankruptcies resulting.

Finally, informed sources report that CN Rail has taken steps to sell its Moncton to Campbellton rail line to an American buyer. The public has expressed much concern over the possible loss of passenger rail service once the line is transferred to a U.S. firm under provincial jurisdiction.

Another source indicated that CN Rail was currently negotiating the sale of the Moncton to Saint John line to the Irving Corporation. If this sale were to occur, the Irving group could compete with CN for domestic traffic originating off the Campbellton rail line and Prince Edward Island. The source stated that Irving could attract some of CN's valuable through traffic. He added that someone should look at the effect of too much competition for too little rail traffic in the Atlantic region.



# MANITOBA PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT SEPTEMBER 1995 SUMMER ISSUE

## OVERVIEW

Manitoba's improved economic performance in 1994 (a 2.9% increase in GDP in real terms) led to high expectations for continued expansion through 1995. The economy has proven difficult to read, however. Most forecasting agencies have revised their outlook for the province several times in the last

six months. The forecasts have ranged from 3% growth down to only 2% (following a spring cool-down) and, more recently, to a modest expansion in the 2.2%-2.6% range.

Part of the forecasting difficulty stems from the apparently contradictory performance of various sectors to date. For example, although retail sales are up (5%), housing starts and sales keep falling (-29.4%). Changeable weather and global markets keep altering the agriculture outlook. And, contrary to national trends, provincial capital investment is up (7.4%), the construction sector is expanding (20.3%) and manufacturing shipments have remained strong (13.5%). Moreover, high real interest rates and government restraint continue to generate some uncertainty.

Although manufacturing is forecast to lead growth, expectations are high for a significant rise in mining output following last year's poor performance (-11.7%). The dark horse continues to be agriculture. While it is unlikely that this sector will duplicate last year's strong performance (12.4%), the coming together of weather, crop yields and market conditions may contribute to

better-than-expected farm receipts.

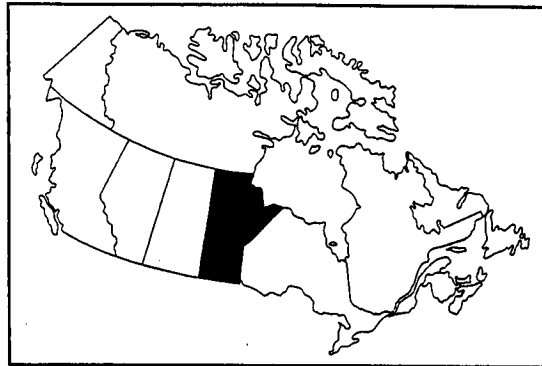
All three levels of government recently signed the Winnipeg Development Agreement, a five-year \$75-million program to facilitate economic development and improve the city's labour force. Funding will be split between the offices of Western Economic Diversification, Manitoba Urban Affairs and the City of Winnipeg. The tripartite

agreement will focus on three main components: labour force development, strategic and sectoral investments, and community development and security.

The Manitoba government is preparing to introduce its balanced-budget bill this fall. A key element of the legislation is the government's plan to retire the \$7-billion accumulated

debt. Interest on the debt costs \$648 million annually and accounts for 50 cents of every tax dollar. The province is proposing to establish a debt retirement fund requiring annual deposits of \$75 million. Assuming the money is invested in a fund earning 8.5%, and applying the accrued earnings against the debt in five-year increments, the province estimates the debt will be retired by 2028.

The newly formed Internal Trade Secretariat is scheduled to start operations in Winnipeg. The Secretariat, headed by Andre Dimitrijevic (formerly co-ordinator of the Manitoba Emergency Measures Organization), will support the Committee of Ministers on Internal Trade in implementing the Internal Trade Agreement which came into force July 1, 1995.





Manitoba is shrinking! A recent Statistics Canada report confirmed that people continue to be a prime provincial export. Between 1993 and 1994, Manitoba had a net population loss of 2 417. Since 1988, the province has lost 49 274 people to interprovincial migration.

## INDICATORS

For the period January-to-July 1995, Manitoba insolvency statistics show 121 business bankruptcies and 1 457 consumer bankruptcies. While business bankruptcies in Canada are up 10% over the same period in 1994, Manitoba registered a decline in these bankruptcies of 17.1% — the best performance of all the provinces. Manitoba's consumer bankruptcies are up 12.9% over 1994, compared to the Canada-wide average of 15.9%.

For fiscal 1994-95, Manitoba reported a 2.1% increase in active registered incorporations, the largest increase since the 1980s. From January to August 1995, the province registered 1 081 new incorporations and 3 063 new business names.

The mid-year review of investment intentions indicates investment in Manitoba is up 7.4% over 1994, well above the Canada average of 4.2%. In particular, manufacturing investment is expected to increase 70.4% over 1994 spending levels, followed by mining (+36.5%), transportation (+24.1%) and wholesale trade (+146.7%).

First-year enrolments at Manitoba universities for the 1995-96 term were reported to be down by 15% to 20%. Officials blamed the decline on the high cost of a university education, an uncertain job market, increased interest in community college training and an increase in entry-level jobs for high school graduates. The decline was not spread evenly across all faculties: enrolments in general studies programs (e.g. faculty of arts) were down 18%, while programs such as engineering were unaffected.

In 1994, the Manitoba Liquor Control Commission recorded its second-highest profit (\$143 million) on liquor sales since 1984. Profits have slowly been rising since bottoming out at \$131 million in 1990.

Retail sales in Manitoba continue to rise. Year-over-year sales for June reflect a 6.2% increase, primarily the result of a surge in women's wear sales.

Manitoba utilities put in a strong performance in 1994, recording growth of 19%. Manitoba Hydro, for example, set a new extra-provincial sales record of \$253 million owing to the completion of the Limestone generating station and the new 12-year 500-MW power sale to Northern States Power.

For the first time in years, construction cranes are visible again on Winnipeg's skyline. The value of new construction work is up 20.3% from a year earlier.

Year-over-year statistics to August indicate Manitoba's labour force increased 1.8% (569 000), exceeding the national average of .4%. In the same period, the provincial unemployment rate declined 2.3 percentage points to 7.4%. By comparison, the Canada-wide average declined .7 points to 9.6%.

A recent survey by Manitoba Temporary Services indicates employers are not expected to increase staff as 1995 draws to a close. Of the Winnipeg businesses, agencies and government departments surveyed, only 18% plan to hire additional staff while 17% plan to reduce staff. Nationally, the number of employers hiring or "decruting" is 14% and 13%, respectively. The survey reports that the best job prospects are in the service sector (particularly medical and business services) and, surprisingly, in public administration.

## MOOD

Overall, the economic outlook for the province in the second half of 1995 appears positive. Business, in particular, seems buoyed by its prospects as investments, exports and retail sales remain on the upswing.

Consumers, however, continue to express concern over declining disposable income, slow job creation and employment uncertainties. A survey by Prairie Research Associates earlier this year showed consumer confidence declining for the first time since late 1993.

The Winnipeg Chamber of Commerce and Manitoba chapter of the Canadian Federation of Independent Business (CFIB) recently spoke out in support of Ottawa's plan to introduce user fees for some government services, such as meat inspection, on the proviso that collected fees be used to reduce taxes. Otherwise, adding a user fee to the existing tax structure would be viewed merely as a "tax

grab." The CFIB was also responding to a recent Insight Canada Research survey which noted high taxes and government red tape were two of the top concerns of business.

There is continued movement to privatization and public-private partnerships. The province recently closed a deal with Miller Waste Systems of Ontario to operate one of its crown corporations, the Manitoba Hazardous Waste Corp. The province also restructured Manitoba Telephone Systems into four distinct operating companies and laid off 250 employees to improve its competitiveness and keep the crown corporation "one step removed from government."

The move to public-private partnerships has resulted in more unusual contracts. The awarding of a recent bridge construction contract in Winnipeg, for example, required the successful contractor to build the bridge with private funds and lease back the bridge to the city over a 30-year period. The contractor is responsible for maintaining the bridge for 30 years, the city saves several million dollars on financing charges, and, by side-stepping the issue of a limited city budget, the project was initiated considerably sooner than it would otherwise have been.

## **KEY SECTORS**

### **Manufacturing**

The manufacturing slowdown that affected some provinces (particularly with respect to auto-related industries) missed Manitoba. Shipments in the first quarter increased 7.2% compared to a .6% decline for all of Canada. Moreover, manufacturing capital investment in Manitoba is expected to increase 70.4% over 1994 spending levels.

Manufacturers of agricultural machinery, benefiting from last year's agriculture performance, have seen a dramatic rise in domestic and foreign sales. Year-to-date sales (January-June) are up 36% over 1994.

Although the aerospace and electronic industries suffered declining outputs (-17.6%) in the first six months as a result of defence cutbacks, the transportation industry improved output by 15.9%. Transportation manufacturing firms in the province are experiencing their fourth straight year of expansion. In addition, both the printing and publishing and

paper products industries are recording banner years with output increases of 25.1% and 40.5%, respectively.

Although local manufacturing firms are noting an increase of domestic orders, growth in 1995 continues to be export-led.

In terms of export destinations, the value of shipments to the U.S. in 1994 increased by 32%, to China by 62.7%, to Germany by 84%, to Mexico by 35.7%, to France by 67% and to Japan by 13.8%.

Manitoba's aerospace industry continues to suffer from the worldwide 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. However, the downturn has motivated many of the smaller of the 26 companies that constitute Manitoba's aerospace industry to diversify by converting production away from military to commercial ventures.

Some hope may reside in efforts to establish Manitoba as an international aerospace training centre. Western Economic Diversification recently committed \$500 000 to cover the costs of preparing a detailed business plan which would see existing centres market their training skills globally.

### **Agriculture**

The Canadian Wheat Board paints a picture of shrinking global supply and growing worldwide demand for wheat and barley. Poor international crops, combined with improved initial prices for the new crop year, suggests a very positive outlook for Manitoba producers.

Although there is little likelihood this year's production will match 1994's outstanding output, growing demand and rising prices may translate into higher-than-expected farm receipts in 1995. In turn, as in 1994, benefits can be expected to spin off to the machinery, transportation and wholesaling industries.

The biggest question facing Manitoba producers is what will be the full impact of eliminating the Crow Rate? Since Manitoba producers are farthest from tidewater, they will face some of the steepest transportation cost increases when the Crow subsidy is eliminated. Freight rates are expected to

jump \$30-\$45 a tonne, reducing the economics of wheat and barley production.

On a positive note, the elimination of the Crow is forcing producers to take stock of natural strengths and advantages. For example, the better soils and growing conditions of Manitoba provide producers with the option of diversifying by switching to high-value crops such as legumes and oilseeds; the livestock industry has room to expand; and, given the number of local packing plants, hog production can be increased. However, this may increase the potential for internal trade disputes. These options will force Manitoba producers to compete with the heavily subsidized Quebec hog industry and Alberta's livestock sector.

#### **Natural Resources**

The province is benefitting from a gas and oil exploration boom as private companies purchase a record number of options to explore Crown land. To date, 1995 sales of oil and gas leases are up 77% over 1994.

After a disappointing 1994 which saw mining production fall 11.7%, the industry is expecting to see growth in the 9%-10% range reflecting a turnaround in global demand and prices and the discovery of several major nickel and copper-zinc deposits. Nickel, the most heavily mined mineral in Manitoba, is now selling for about \$3.60/lb. compared to \$1.88/lb. in 1992. To date, capital investment by the mining sector is up 36.5% over 1994.

The pulp and paper sector continues to be aided by a reduction in surplus capacity of newsprint in Canada and an increase in global demand for newsprint which has bolstered prices by as much as 50%. In the first six months of 1995, the paper and publishing industries are reporting shipment increases of 40.5% and 25.1%, respectively.

#### **Health Care**

Manitoba developed a 10-year comprehensive long-range plan in 1988 entitled the Canada-Manitoba Industry Development Strategy. Over \$500 million in public and private sector investment has been put in place over the last five years in the pharmaceutical, medical products, aging and rehab, health care information and telecommunications, diagnostics and environmental health fields.

Pharmaceuticals is one of the most dynamic sectors and is comprised of nine firms which research, develop, manufacture and market a wide variety of prescription, over-the-counter and biological products. Manitoba's new strategic focus is to establish a primary Canadian centre in fermentation technology for pharmaceutical manufacturing processes.

Opposition to a level-four virology lab in Toronto will likely mean Winnipeg will become the hub of level-four or "hot lab" virus research. The \$141-million federal lab currently under construction in Winnipeg is scheduled to open in autumn 1997. The facility will be headed by Mike Kiley, currently chief of bio-safety at the National Institute of Health at Bethesda, Md.

#### **OBSERVATIONS**

##### **Construction Transformation**

"What you will see are (more) joint ventures between companies...and developing marketing and financing strategies will be as important as knowing how to build bridges and roads." —John Spratt, chairman of the Canadian Construction Association, commenting on the shape of change in the construction industry.

##### **Women Lead Retail Charge**

"After a year of looking at the same clothes in the closet, women began to spend in the first half of 1995, culminating with a 15% jump in sales in June." —Retail Analyst John Torella commenting on the improved performance of the retail sector despite sagging sales of men's wear.



**BRITISH COLUMBIA**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
SEPTEMBER 1995  
SUMMER ISSUE

**OVERVIEW**

After growth slowed in the first half of 1995, forecasts were revised downwards to 2.7% from the 3% foreseen earlier.

The housing market is slumping, with starts at 22 800 units, 30% below last year's level. Victoria and Vancouver housing markets are particularly hard hit. Nevertheless, planned non-residential construction grew 1.2% in July, while nationally it fell nearly 13%.

From January to May, exports were up 26.5% over the same period last year, with dramatic increases in shipments to Far East destinations. The liveliest export growth was in pulp, newsprint and other paper products; copper; and coal. Exports of machinery and electrical/electronic/communications equipment were also strong.

Second-quarter retail sales were up 8.8% over 1994; growth areas were clothing, food, and recreational and motor vehicles. Wholesale deliveries, however, rose only 1.3% between May and June, which was below the national average of 5.5% and a warning sign of an impending slowdown.

B.C. has one of the country's highest inflation rates, annualized at 2.5% in August.

In June, new businesses numbered 2293, up 22% year over year. Business bankruptcies rose from 64

to 77; nearly a third of them this year have been in construction.

From November 1994 to August 1995, the number of jobs grew by 42 000 to a new peak of 1 826 000, and unemployment fell to 8.7%, down from 9.5% in August 1994.

Construction was down by 31 000 jobs (or 19%) year over year in August 1995.



By 2005, B.C. is expected to create 417 000 new jobs (25% growth), with sales and service offering one out of every three job openings. Business, finance and administration will offer 20% of openings, and management 12%.

**INDICATORS**

General Motors Place, a 20 000-seat arena in downtown Vancouver, opens in September and is expected to bring an extra \$54 million to the city. Construction of the new Vancouver conference centre will start in spring 1996 and finish in 1998.

The average investment in B.C. planned by foreign-owned companies for 1995-96 is \$6 million, up 63% from last year. Firms from the U.S., New Zealand and Hong Kong are the largest potential investors. Of those surveyed by KPMG Consulting in a report released in August, 31% plan to hire more staff in 1995-96.

A June briefing drew 100 companies to hear about the province's employee share ownership program, in which 40 firms currently participate. Small

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

businesses are often interested in this program as a way of managing the retirements of their owners.

The Hong-Kong-based *Sing Tao* newspaper has opened a new \$7-million office in Vancouver. With a circulation of 30 000 in Western Canada, this newspaper ranks eighth among the city's dailies. It focuses on economic and financial news only.

B.C. Chamber of Commerce members recently gave the the provincial government low marks for its interim agreements and "excessive secrecy" in aboriginal affairs policy, the processes it used in handling the Windy Craggy and Kemano projects, the removal of the secret ballot for union certification, the increase in minimum wage and ergonomics proposals, and increasing indirect taxation and government debt.

Members liked new directions in education, such as province-wide bargaining and abandonment of Year 2000, a controversial school program viewed as moving away from the basics.

While B.C. has the lowest provincial debt per capita in Canada, the B.C. Central Credit Union points out that the province's excess of direct liabilities over financial assets was \$5.6 billion in 1994, up 15% over 1993. Servicing this debt costs about \$1.3 billion, enough to build 6600 new houses a year at a cost of \$200 000 each, or to finance university education for nearly 67 000 young British Columbians at an average cost of \$20 000 yearly.

"The number of real estate agents I see turning in their pagers suggests that you'll be able to buy a house in the Okanagan relatively cheaply by about next February."

An encouraging sign: B.C. teens watch less television than any other age group (13.9 hours per week compared to 20.6 for the total population).

## MOOD

More than 85% of participants in a recent Vancouver Board of Trade survey stated that the outlook for their businesses is still good and that they plan expansions or steady growth. For October-December, 28% plan to step up hiring, a decrease from the 45% three months ago, but still a sign of confidence. Firms are positive, "with

reservations." Increasingly, regulatory requirements are viewed as a problem. "We can't begin to stay on top of reporting requirements; it means large accounting fees to have someone else handle it for us, and I'm bitter about this."

As noted in previous issues of the *Provincial Industrial Intelligence Report*, labour legislation continues to be an irritant. Another irritant is a recent provincial act that gives municipalities the right to demand that home builders contribute up to 5% of their land or "cash in lieu" of land for new school sites, similar to existing set-asides for park space. This is seen as a revenue raiser, adding to the myriad of taxes and regulations which push up the cost of home construction.

It is said that pension funds will be faced with a "monstrous cost" estimated at 20% after regulations changes meant to protect employees are made to the Pension Benefits Standards Act.

## KEY SECTORS

### *Resource Industries*

#### Forest products

Firms in this sector have become much more optimistic with the dramatic rise in prices due to increased timber demand in the U.S. However, concerns continue over supply. Firms are hurrying to buy access to fibre. Canfor is buying into Lakeland Mills and The Pas Lumber, Babine Forest is buying Decker Lake, and West Fraser is purchasing the forest assets of Alberta Energy Co. Immediate reductions of 35% in allowable cuts will cost 500 jobs in the Northern Vancouver Island-Port McNeill area. Depressed wood product markets in Japan, the high costs of logs and a shortage of supply have shut down many major producers on Vancouver Island.

The forest sector will get a cash infusion of up to \$250 million in 1995-96 under the Forest Renewal B.C. Business Plan. Investments of \$15.8 million have been announced for the Cariboo, Prince George and Smithers areas for, among other things, watershed restoration. In the Prince Rupert region, the B.C. Supreme Court ordered the B.C. Forest Service to resume discussions with the Gitksan. Clearcutting practices had been the issue. Negotiations will also resume with the Nisga'a, now that the federal and provincial governments

have agreed to a cost-sharing formula whereby the province contributes land and resources, and the federal government, cash.

Some of B.C.'s most competitive and technically advanced secondary wood manufacturers are moving to the U.S., as woodworking unions seek to unionize the sector. The firms cannot afford the traditional wages of \$25-per-hour seen in primary wood manufacturing.

Washington State uses local intelligence sources to find out when a firm has received bad news from a union and, with perfect timing, invites the firm down to "look things over." Two recent emigrants are a leading-edge kitchen cabinet firm and a cabinet door manufacturer. The latter is rated as the third fastest growth company in North America as noted by the *Globe and Mail*.

A leading export-goods manufacturer in the Okanagan has just returned from a scouting trip to the U.S. **"We got told our unions wanted a 38% increase over three years."**

#### Mining/Power

The B.C. government has reached an agreement to provide compensation on the Windy Craggy claim, which it says will lead to the development of two new mines in Houston and Stewart. The package totals \$103.8 million, including \$26 million in compensation as well as \$17 million for mine development, \$3.5 million for training and skills development, \$46 million for power line installation and \$11.3 million for infrastructure.

In other developments, Eskay Creek is the first major mine opening in B.C. since 1991, and, with the reopening of three other mines, will create 700 jobs.

BC Hydro is taking the Bonneville Power case to Ottawa to review its actions under the Columbia River Treaty. Bonneville's recent backing out of a power purchase deal cost the provincial treasury \$250 million and helped bring about the recent 1% across-the-board cut in provincial government expenditures.

Cautious optimism continues in the **manufacturing** sector. **"Old customers are being replaced by new ones."** Some tightening of the economy may be occurring. Firms speak of shortages of

affordable industrial land (on Vancouver Island) and of skilled, affordable personnel in Vancouver.

Labour is seen as increasingly aggressive, in the wake of provincial labour standards legislation and the easing of certification processes for unions. This and the capital tax are cited as disincentives to investment.

**"There should be more attention to getting firms to invest in the province."**

**"My new facility in Washington State employs 150 people, the same size as my Canadian one. I wouldn't invest in B.C. at the current time."**

#### High-tech/Communications

Clients are cost-conscious, pressing firms to absorb fees and costs of doing business. Hiring is brisk in the telecommunications engineering/consulting and information technology sectors, while layoffs continue in the lower-end skills categories. A "brain drain" in engineering/technology personnel may be occurring due to demand from personal communications service firms in the U.S.

A key challenge for software firms is access to well-trained people who can think strategically. **"The level of personal tax rates here is an important issue in terms of the ability to attract and retain highly qualified and experienced staff."**

Business also gives mixed reviews on the quality of graduates from local universities. As B.C. becomes a more active market for telecommunications products, foreign suppliers are setting up storefronts or representatives.

Free Trade and Open Skies are among the positive government actions cited by communications firms. **"We've been able to streamline our customs clearance procedure and our access to U.S. destinations should improve."**

Restrictions on broadcast services by telephone companies are resented. Firms complain about growing costs of leasing provincial land for radio sites. Competition for sites, land-use committees and a revenue-seeking provincial government are factors boosting land costs. **"The land would otherwise be of little value."**

It is also difficult to obtain Crown land in the

Okanagan, where aboriginal authorities are routinely asked if they have claims on the land, and no decision gets made.

## Services

### General

Exports of services, mostly in the transportation and communications fields, now comprise nearly a fifth of all B.C. exports and 13% of the provincial GDP. Services exported internationally and interprovincially totalled \$13.5 billion in 1994 — 9% above the value of all goods shipped to the U.S. B.C. is the only province that exports a greater value of services than goods interprovincially. B.C.'s interprovincial exports of goods are quite low.

### Tourism

B.C. tourism grew substantially in all major visitor categories over the summer of 1995. A total of 6.8 million visitors had come to the province by the end of the second quarter (June), an increase of 7% over the same period last year. The growth was largely due to the emerging Korean and Taiwanese visitor markets, which showed respectively 110% and 95% increases over last year's figures.

Total provincial room revenues rose by more than 13%, while domestic air traffic through Vancouver International Airport grew by 9%. These upward trends continued from the end of the second quarter through the remainder of the summer.

### Environmental

With B.C. Forest Practices Code requirements finally becoming clearer and forest companies giving up hope that a new provincial government might interpret them more leniently, environmental work is starting in watershed restoration and forest renewal. Consulting firms are hiring professional foresters.

There is also good news in the site assessment and site remediation field. The B.C. government is streamlining to eliminate volume delays, and environmental consulting jobs are materializing faster and more predictably. As forecast earlier, the site audit market in B.C. is becoming saturated.

Projects are smaller, completed more quickly and done with a "cookbook" approach and low profit margins.

"Emerging" markets in the former Communist bloc are being treated with caution. These markets offer large management projects that target specific waste types such as munitions and radioactive materials. But firms worry about payment and doubt the market will take off until large multinationals move in and provide the motivation to raise standards to something approaching a North American level.

### Transport

The new bilateral air transportation agreement will likely see many more American carriers at Vancouver International Airport. The spinoffs may result in \$4 to \$5 million more revenue coming into the province in the first year, and \$140 million a year for the next five years. The cruise industry stands to gain the most since 90% of its passengers are American. A third are from regions which had few air links to Vancouver previously. Crucial to realizing Vancouver International Airport's potential will be the Canadian Airlines-American Airlines link, building on Canadian's good routes to Asia and American's strength in the U.S. **"We'll have better international routes than competing airports in the U.S. northwest."**

Kelowna Airport is also seeing an increase in traffic, although business travel is down and consumers are concerned about prices.

Total revenues in 1994-95 for B.C. Ferry Corporation were \$363 million, up 6% from the previous year.

Despite good harvests this year, the grain terminal at Prince Rupert is contending with high levels of debt, inflexible employment practices, freight rates that need rationalizing and the need for better tracking of rail cars. Because of these problems, the terminal's many natural advantages still cannot make it competitive with U.S. ports.

Business dropped off recently at the Fraser Port's auto terminal. Auto imports from Japan are declining, but U.S. and Mexican-produced cars are arriving at a steady pace.

## **OBSERVATIONS**

Firms are watching governments closely.

**"People are still scared of taxation, not necessarily that there is taxation but that it is going up, going into new 'areas' and especially when it is squandered."**

Government attitudes are criticized.

**"Government views business as a source of cash rather than as a source of economic growth."**

The federal Scientific Research and Experimental Development tax credit once helped a certain firm stay competitive and generate jobs (and tax revenue). It brought benefits to Canada well above the value of the credit. But now the red tape has won out, and the firm will stop using the credit.

**"Consultants who assist firms in qualifying for the tax credit used to take a 15-20% cut. Now it's 50% because of the hassles. This deflects the benefits away from applied scientific research."**





Industry Canada  
Library - Queen  
NOV 30 1995  
Industrie Canada  
Bibliothèque - Queen

Queen  
HC  
111  
. P8  
1995  
Summer

**ALBERTA**  
**PROVINCIAL INDUSTRIAL INTELLIGENCE REPORT**  
**SEPTEMBER 1995**  
**SUMMER ISSUE**

**OVERVIEW**

Alberta had the fastest growing economy among Canada's provinces for the second year in a row in 1994. The province will post slower growth this year.

Continued strength in the manufacturing sector, especially in chemicals and forest products, will offset less activity in the service sector. Alberta's economy is expected to post average annual real growth rates of 2.7% in 1995 and 2.9% in 1996. By comparison, the Canadian economy is forecast to grow at 2.2% in 1995 and 2.8% in 1996 (Conference Board of Canada).

The number of people employed in Alberta increased by 37 000 in August 1995 compared to August 1994. Over the same period, the seasonally adjusted unemployment rate decreased from 8.4% to 8%. Rates in Edmonton (9.5%) and Calgary (7.7%) also declined over the period.

The provincial government is on track with its plans to eliminate the deficit by 1996-97, largely through aggressive spending cuts. Although the government balanced its budget last year, achieving a surplus of \$958 million in fiscal 1994-95, the province is again forecasting a deficit for this year. But, according to the latest estimate, it will be only \$125 million.

In August, the province released its *International Export Strategy 1995/96 — Marketing the Alberta Advantage*. The paper sets out strategic directions

for trade and tourism, industry and technology development, and investment. It also presents specific strategies and activity plans for 16 sectors of the Alberta economy. Business plan goals for 1997 include: increasing Alberta exports to \$25.2 billion annually; increasing private sector investment in non-energy sectors to \$12 billion; increasing tourism receipts to \$3.9 billion; and creating 110 000 new jobs.



**INDICATORS**

Alberta's seasonally adjusted unemployment rate remains third lowest in Canada, at 8% in August 1995. By comparison, the rate for Canada was 9.6%.

Business bankruptcies in the January-July period increased by 23.4% compared to the same period of 1994. The

majority were in the construction and retail trade industries. Consumer bankruptcies increased by 30.5%.

New Alberta business incorporations for the first eight months of 1995 increased by .2% over last year.

In June, the number of U.S. residents entering Canada via Alberta was 8.2% higher than for the same month last year. The number of overseas visitors to Alberta increased by 18%.

The average number of rigs drilling during the January to April period was up 5% from the corresponding period in 1994.

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

In the first six months of 1995, exports increased by 29.2% over the same period last year; imports increased 16.7%.

During the first seven months of 1995, the total value of building permits decreased by 12.5% compared to the same period in 1994. Urban dwelling starts decreased by 31%.

In the first half of 1995, the total value of farm cash receipts rose by 8.1% over the same period in 1994; receipts from crops increased by 29%.

Retail sales for January to June were up slightly at .8% compared to the same period in 1994.

The consumer price index for Alberta during July rose 2.3% on an annual basis; the national index was up 2.5%.

## MOOD

Alberta's business community is in a generally buoyant mood. Despite intense merger and acquisition activity, the oil and gas industry is basically healthy, and Calgary's job losses are being quickly reabsorbed elsewhere in the industry or in related and diversified enterprises. The unemployment rate for the city is relatively low at 7.7%.

Oilpatch cash flow is strong, investor confidence is high and the long-term outlook is good despite short-term weakness in natural gas markets. Investor interest in non-conventional oils is particularly strong. The agriculture industry is also healthy, with prices for cereal grains and oilseeds solid and a good crop in the offing. Forest industries are profitable, and some new investments are being made.

Tourism is buoyant. The federal decision to support Calgary's bid for the World's Fair in 2005 is a big boost for Alberta.

Consumer confidence in Alberta remains weak. Job market uncertainty, especially in Edmonton, coupled with fear of the changes in health care and other areas, appear to be the main reasons. In smaller communities too, consumers are concerned about health care rationalization. Canada Mortgage and Housing Corporation reports that Alberta's year-to-date housing starts to July were down 31% compared with one year ago. In Edmonton, the drop was 43%. However, home

sales began to pick up again in August according to the Edmonton Real Estate Board, with sales of previously owned units up 16% over August 1994. Apparently, first-time buyers are entering the market. Nevertheless, Alberta consumers still seem cautious about making major purchases of any kind.

## KEY SECTORS

### Resource Industries

The oil and gas sector in Alberta is basically healthy, with the year's drilling activity strong so far and the severe downturn forecast for earlier this year avoided.

The single greatest concern is the relatively low price of natural gas. Since gas prices are forecast to remain low, the pace of drilling is expected to taper off in the last half of the year. This will be offset by increased oil drilling and plant expansion, prompted by a rise in the average price of West Texas Intermediate oil to about US\$18.50 per barrel in 1995.

Oil-well completions in Alberta were up 40% as of mid-September and are expected to remain strong over the balance of 1995.

There is renewed interest in heavy oil and oilsands. Syncrude, Suncor and Imperial Oil have all announced plans to expand their oilsands businesses. Amoco Canada intends to spend up to \$500 million expanding its Primrose and Wolf Lake heavy-oil areas in northeastern Alberta. Imperial Oil is proceeding with development of phases 9 and 10 of its Cold Lake heavy-oil facility along with engineering for further phases. This \$240-million project will increase production to 127 000 barrels per day by 1997.

On a smaller scale, other companies, including Pan-Canadian Petroleum, also plan to invest more in heavy oil and will often use horizontal drilling techniques or other new technologies in the process.

The oil and gas industry is currently seeing much merger and acquisition activity. According to the President of Sayer Securities Ltd., which closely tracks takeovers and asset sales, the current corporate acquisition cycle is some 18 months old and at about the halfway mark.

The initial flurry of mergers was generally friendly, but this summer has seen a number of high-profile hostile takeovers, notably the \$1-billion battle for Home Oil Co. and Crestar Energy's bid for Ranchmen's Resources. This natural rationalization of the industry is expected to bring forth a new league of large, efficient, Canadian-owned companies. Another positive side effect will be the strengthening of the local investment community. Calgary now ranks behind Toronto only in size, volume of capital involved and expertise.

In the **agriculture** sector, market prices for grains, oilseeds and pulses will remain strong into fall 1995. Solid world demand and reduced global production have resulted in low levels of inventory — a situation expected to help maintain farm income levels in Alberta over the near term. Prices for barley and other grains are much higher this year than last. This year's wheat crop prices are expected to be up about 10% from last year.

The low Canadian dollar has made Canadian grains particularly attractive in the international marketplace. Rising prices are expected to more than make up for higher fertilizer prices and transportation costs. Freight costs have risen sharply as a result of the removal of the grain transportation subsidy on August 1, 1995, under the Western Grain Transportation Act.

Cool, wet weather has delayed the maturing of crops and early frosts have caused some damage. Furthermore, varied growing conditions throughout the province have made predicting production levels difficult, although provincial Department of Agriculture officials are expecting better crop yields this year than last in all major cereals and oilseeds.

Hay production has been adversely affected by weather conditions which, together with rising grain prices, is contributing to losses in the beef industry. Cattle producers are losing up to \$200 per head and beef prices have fallen to about 78 cents per pound from about \$1 per pound. Many feedlots would break even at around 82 cents per pound.

The red-meat processing sector will continue to experience declining margins, and stagnant revenues from meat sales are expected to prevail in the retail sector.

The pending U.S. challenge under NAFTA is creating an unstable environment in the supply-managed dairy and poultry sectors.

On the policy front, Alberta Agriculture Minister Walter Paszkowski recently announced a plebiscite on wheat and barley marketing to be held between November 13 and 24. Results of the plebiscite will be used to focus attention on the question of the jurisdiction of the Canadian Wheat Board (CWB) during upcoming deliberations of the Western Grain Marketing Forum, initiated by federal Agriculture Minister Ralph Goodale. Alberta has long pressed for changes to the CWB Act that would give Canadian grains direct access to U.S. markets.

The **forest products** sector continues to gain strength. According to the Alberta Forest Products Association, forestry is now the fourth-largest engine of economic growth in the province and employs 40 000 people. The value of shipments for this year are running about 50% higher than in 1994.

Hit hard in the early part of the year by a steep decline in U.S. housing starts, lumber prices have now recovered to about US\$300 per thousand board feet and, Alberta sawmills are again profitable. Panelboard producers are also doing better, but there is concern about an oversupply as new capacity comes on stream. Ainsworth Lumber Company's oriented strandboard mill at Grande Prairie is on target to open in December.

Pulp and paper firms continue to experience high prices and profits. The surge in Alberta shipments of forest products is largely due to the Al-Pac plant starting up and to soaring pulp prices that have nearly doubled in the past two years.

A new price-sensitive stumpage fee system has recently been introduced by the Alberta government. The new fee applies to pulp, oriented strandboard and veneer producers, a fee already introduced in January 1994 for lumber producers.

A spokesperson for the Western Canadian Wilderness Committee says the new system is unfair because it does not affect giant pulp and newsprint producers who hold forest management agreements. The provincial government has indicated its intent to renegotiate these long-term agreements, but major companies such as Diashowa-Merubeni and Al-Pac warn that the

government's attempt to do so could affect planned pulp mill expansions at Peace River and Athabasca.

### Manufacturing

Alberta's manufacturing sector continued its strong growth pattern by posting a 17.9% increase in the value of shipments for the first half of 1995. Manufacturing employment has also grown significantly. August 1995 saw 113 400 people employed in the sector, an increase of 7.4% over August 1994. In 1994, manufacturing accounted for 30.8% of total Alberta exports.

Alberta's fastest growing manufacturing industry lately has been paper products. Between 1993 and 1994, this industry's shipments increased by 47.8%; they jumped by 86.5% in the first six months of 1995 over the same period in 1994.

The outlook for the forest products manufacturing industry is promising, and growth in this sector is producing spinoff benefits for other businesses. For example, CXY Chemicals recently announced a \$7-million expansion to its sodium chlorate plant at Bruderheim. The plant produces a substitute for chlorine, which most pulp and paper mills previously used for bleaching.

Borden Packaging and Industrial Products plans a \$10-million expansion of its plant, which produces urea formaldehydes and liquid phenol-formaldehyde resins used by the forest industry in the manufacture of strandboard and fibreboard.

Alberta's petrochemical community is smiling again. After three difficult years during which the industry cut costs and improved efficiencies, net profits improved markedly in 1994. Natural gas feedstock prices are low, the exchange rate with the U.S. is favourable and exports continue to grow under free trade. World demand for plastics and fertilizer is rising, especially in China and other Pacific Rim countries.

Investments in Alberta's petrochemical industry of late have been significant. Recently, Shell Canada unveiled a \$25-million expansion of its Scotford styrene facility; last fall, Union Carbide and partners opened a new ethylene glycol plant at Prentiss, effectively doubling capacity at that location; and last year Dow Chemical completed its \$800 million hydrocarbon project at Fort Saskatchewan. With the upturn in the market for

petrochemicals, these investments are well timed. Dow reports that it has run the plant flat out since start-up day.

The petroleum refining industry reported a utilization rate of 87% in 1994, the highest it has been since 1974. The main reason for the turnaround is refinery closures which eliminated surplus capacity and allowed the industry to bring down costs and improve efficiencies.

### Advanced Technology

Commercial spin-offs from academic R&D have put Edmonton among the top five cities for business in Canada, according to the August issue of the *Globe and Mail's Report on Business* magazine. The magazine singled out Edmonton because of what it called "the seamless flow between the University of Alberta and the business community."

A total of 43 companies have sprung from ongoing research at the university. Most of these companies are in the biotechnology and scientific fields and include such firms as Biomira, Raylo Chemicals and SypPhar Laboratories.

Manufacturers of medical devices appear to be adversely affected by uncertainties in domestic markets, due in part at least to Alberta's health-care restructuring. Some firms are increasingly turning to international markets and are attempting to diversify product lines.

### Services

Tourism in Alberta generates over \$3 billion in revenues and employs about 100 000 people. Business is expected to be slightly higher this year than last, according to the 31 tourism businesses interviewed this summer by Alberta Economic Development and Tourism. Most of those interviewed reported that they have experienced levels of business that were similar to, or slightly above, last year's level.

The winter and early spring seasons recorded an increase in the number of visitors to the Alberta mountain ski resorts. A spokesperson for the Tourist Industry Association of Alberta expects growth of about 3% in provincial tourism for the summer of 1995.

The creation of Alberta Tourism Partnership (ATP) was announced in May by the Alberta government. ATP is a province-wide, not-for-profit corporation, representing the industry. It contracts with the government for investment funding to support tourism marketing and with tourism destination regions for delivery of services and coordination.

#### **OBSERVATIONS**

##### **On Alberta's competitive tax regime:**

"I looked throughout Canada and the U.S. to find the best deal, and Alberta's all-around tax regime drew me here." — Jonathan Avis, President, Saxby Foods Ltd. explaining why he decided to start up his frozen dessert business in Edmonton last July.