

HC
111
.A34
1986
v. 3

Perspective 86

Manitoba



Government
of Canada

Gouvernement
du Canada

Regional Industrial
Expansion

Expansion industrielle
régionale

Canada

MANITOBA

ECONOMIC DEVELOPMENT PERSPECTIVE

1986

DEPARTMENT OF REGIONAL
INDUSTRIAL EXPANSION
LIBRARY

DEC 21 1987

BIBLIOTHEQUE
MINISTERE DE L'EXPANSION
INDUSTRIELLE REGIONALE

**Federal Economic Development Coordinator
Winnipeg, Manitoba**

(All statistics and conclusions are contingent upon data available
as of March 10, 1986.)

TABLE OF CONTENTS

	<u>Page</u>
1. Summary	1
2. Economic Situation	
i) Overview	3
ii) Current Circumstances	5
a) Output	5
b) Labour Market	6
c) Investment	6
d) Provincial Debt	7
iii) Outlook	7
3. Major Elements in the Economy	
i) Overview	10
ii) Manufacturing	10
iii) Agri-Food Complex	12
iv) Service Sector	14
v) Hydro-electric Development	15
4. Major Issues	
i) Overview: The Need for Economic Adaptation	16
ii) Sectors	16
iii) Communities	18
iv) People	18
5. Conclusions	21

1. SUMMARY

Manitoba has a diversified economy, sharing characteristics both with its neighbouring prairie provinces and with the industrial economies of central Canada. The strength of the economy derives from the broadly based manufacturing and agriculture sectors, the large service sector and the hydro-electric resource. Small business accounts for a high proportion of industrial employment and output.

Manitoba's economy is performing well, fuelled by strong population and income growth, agriculture production and growing exports to the U.S. Expectations over the medium term are also quite good -- employment and output growth over the next five-to-ten-year period should exceed national averages. This outlook reflects the direct and indirect impacts of future hydro-electric developments, i.e., the Limestone and Conawapa generating stations. Other sectors of the economy are expected to remain stable.

While current circumstances are favourable, the long-term outlook for the province is more difficult to predict. Manitoba is a slow-growth region that traditionally experiences outmigration and below-average income levels. Hydro development will not, in itself, provide permanent employment and income opportunities. Long-term prosperity will be linked to the future of agri-food and manufacturing production, to the evolution of the city of Winnipeg and to the level of economic participation of Manitoba's native population.

Agri-food production and manufacturing in general represent areas of potential growth, as Manitoba has some strengths on which to build. Both sectors, however, face rapidly changing environments and growing competition. Accordingly, industry and government responses that stress adaptation and competitiveness are required.

Manitoba is the only province with more than half its population in one city. Winnipeg also accounts for roughly 70 percent of the province's manufacturing and service sectors, which provided the only substantial sources of employment growth over the last decade. As a result, Winnipeg continues to attract migrants and to set the pace for economic development in the province. The city is at a critical stage in its evolution. It must provide an environment suitable for growth-oriented, technology-intensive industry if job creation needs are to be satisfied.

People of native ancestry comprise roughly 10 percent of Manitoba's population. The native population is youthful on average and it is expected that natives will represent one in four new entrants to the labour force within the next few years.

This factor represents a major economic development issue given the levels of disparity facing the native population and the growing competitiveness of the job market. Migration of native people to urban centres is now a large-scale phenomenon and is expected to intensify over the coming years. This presents a special challenge to established policies and to programs targetted to native people.

2. ECONOMIC SITUATION

i) Overview

Manitoba's current economic performance and medium-term prospects are above the national average. Levels of output, employment and investment should continue to grow at a good, if unspectacular, pace over the next five to ten years. This would represent a turnaround for Manitoba, whose growth rate has trailed Canadian growth rates in recent decades. Whether the Manitoba turnaround will hold over the long term is subject to a number of factors, described in later sections.

Historically, economic growth rates in Manitoba have been slightly below the Canadian average as shown in Table 2.1.

Table 2.1
Average Annual Growth Rates (1970-84)

	<u>Canada</u>	<u>Manitoba</u>
Real Output	3.4%	2.6%
Employment	2.3%	1.8%

Population, employment and labour force growth were also below average during this period. The result has been a relative decline in economic stature within Confederation. Table 2.2 shows the decline in Manitoba's percentage share of total Canadian output, employment, personal income and labour force over nearly a quarter century.

Table 2.2
Manitoba As Percentage Share of Canada

	<u>1961</u>	<u>1975</u>	<u>1984</u>
Real Output	4.6	4.1	3.9
Labour Force	5.3	4.4	4.2
Employment	5.4	4.5	4.3
Personal Income	4.8	4.3	4.0

Manitoba is one of six provinces receiving federal equalization payments, although on a per capita basis Manitoba receives the least of the six (estimate \$353 per capita in 1985/86; Quebec is next lowest at \$415, Newfoundland the highest at \$1036). Roughly 36 percent of all Manitoba government revenues are received as transfers from the federal government.

Earned income per capita in Manitoba is about 90 percent of the Canadian average. However a dollar goes further in Manitoba due to slightly lower prices on average.

Manitobans, like all Canadians, have become more dependent on government transfers as a source of income, as shown in table 2.3.

Table 2.3
Government Transfers to Individuals as a
Proportion of Total Personal Income

	<u>1961-65</u>	<u>1980-84</u>
Canada	8.6%	13.8%
Manitoba	9.4%	13.6%

Both groups have experienced a rapid growth in the proportion of personal income derived from government (60 percent increase for Canadians; 45 percent increase for Manitobans). On a positive note, Manitobans are now slightly less dependent on government income than are Canadians generally, whereas the reverse was true in the early sixties. Low Manitoba unemployment rates, coupled with the evolution of unemployment insurance, probably account for this.

The negative employment effects of slow growth in Manitoba have been moderated by a mobile labour force. Until recently, Manitoba has consistently exported labour to other provinces. Table 2.4 illustrates the pace of this migration, along with the dramatic turnaround as of 1982.

Table 2.4
Manitoba's Net Interprovincial Migration (1961-85)

<u>FROM</u>	<u>TO</u>	<u>(000s)</u>
1961	1966	- 23.5
1966	1971	- 40.7
1971	1976	- 26.8
1976	1982	- 37.3
1982	1984	+ 2.4

The net population loss due to interprovincial migration was 128 000 between the years 1961 and 1982. Total labour-force size during this period averaged around 450 000 people, which indicates the relative significance of this migration trend. Population growth has increased rapidly in Manitoba as a result of the turnaround in interprovincial migration.

Population growth can prompt economic development due to the emergence of the service and construction sectors (which are population-sensitive) as growth sectors of the economy. Manitoba suffered the negative effects of outmigration for many years, and is now enjoying the benefit of the reversal, through factors such as residential construction, retail sales and commercial services.

ii) Current Circumstances

Manitoba's economy began to look better in relative terms during the early 1980s when the bottom fell out of the Western resource boom and a general recession affected all industrial economies. For a number of structural reasons, and due to the expansionary policies of the Manitoba government, the province withstood the recession better than most other regions. People began returning to the province, which started the self-reinforcing dynamic described earlier. In addition, Manitoba's agriculture sector enjoyed outstanding growth during 1984 and 1985 (cumulative real growth estimated at 20 percent compared to 1.8 percent nationally) as a result of favourable climatic conditions.

a) Output

Table 2.5 estimates real Gross Domestic Product (GDP) growth in Canada and Manitoba for the period 1982-1984, for 1985 and for 1986:

	<u>1982-84</u>	<u>1985</u>	<u>1986</u>
Canada	3.4%	3.8%	3.0%
Manitoba	4.4%	4.3%	3.5%

These numbers, which reflect a synthesis of several forecasts, indicate a slightly better aggregate performance for Manitoba (12.2 percent cumulative increase) than Canada as a whole (10.2 percent).

b) Labour Market

Solid growth has been accompanied by low rates of unemployment: 7.2 percent as of November 1985 compared to the national average of 10.2 percent. Unlike previous periods, the unemployment rate has not been due to outmigration. Both labour force size and employment have been increasing substantially as is shown in Table 2.6.

Table 2.6
Increase in Labour Force and Employment:
1982-84 Cumulative Percentage Change

	<u>Canada</u>	<u>Manitoba</u>
Labour Force	3.7%	3.8%
Employment	3.3%	4.8%

Virtually all of Manitoba's employment growth during this period was in the construction, trade, commercial services and public administration sectors. There was also a slight post-recession recovery in forestry and mining. Agricultural employment was stagnant and manufacturing remained well below its pre-recession levels. However, preliminary indications for 1985 are more positive for both these sectors.

c) Investment

Manitoba's economy is being assisted by high levels of public and private investment. Capital investment grew by approximately 17 percent in 1985, the highest growth rate of any province. Non-residential investment in Manitoba is estimated to have grown by 32 percent during the last two years, compared to 13 percent for Canada. Manufacturing investment, while a small share of total capital and repair expenditures, increased by healthy rates of 19 percent in 1984 and an estimated 16 percent in 1985. Trade, finance and commercial services investment grew by 19 percent and 27 percent respectively during 1984 and 1985 and utilities investment grew by 14 percent and 20 percent respectively. Primary industries are the only sector of the economy which has not seen strong investment growth.

Public investment has been an important factor in Manitoba's investment picture in recent years. Government's share of gross fixed-capital formation in Manitoba was 16 percent between 1980 and 1984, compared to 13 percent for Canada as a whole. During the period between 1974 and 1979, the pattern was reversed -- government's share of capital formation was 14 percent for Canada and only 13.5 percent for Manitoba.

Manitoba also has enjoyed strong personal income growth in recent years (30 percent between 1981 and 1984, compared to 25.5 percent nationally). Retail sales increased by a strong 10 percent during 1984, roughly one percentage point greater than the national average. During 1985, retail sales are expected to increase 11 to 13 percent, the highest increase of any province.

Housing starts have been a major driving force in the economy. Roughly 17 000 housing starts took place in the 1982-85 period, compared to only 7400 in the previous three-year period.

d) Provincial Debt

In recent years, the Manitoba government has stimulated demand and employment in the province through expansionary fiscal policies (Manitoba government expenditures per capita are still the third lowest in the country, behind British Columbia and Ontario). Total provincial expenditures rose by approximately 40 percent in the three-year period 1982-85, with a 92 percent increase in the deficit (comparing 1985 "unaudited" figures to 1982). The total direct-funded debt of the province was 20.14 percent of Gross Provincial Product (GPP) in 1981, but by 1984 it reached 29.15 percent. The net cost of servicing general provincial debt rose from 4.01 percent of provincial revenue in 1981 to 8.57 percent in 1984.

In summary, a combination of factors explain Manitoba's recent economic turnaround: Manitoba government policies and programs, improved agricultural performance, increased industrial exports (to the U.S. in particular) and strong population growth. The resumption of hydro-electric development on the Nelson River has just begun to have an influence on economic performance, primarily in terms of improved investor and consumer confidence.

iii) Outlook

Output, employment and investment growth in Manitoba over the next five to ten years should slightly exceed the national average. This favourable outlook is due to the direct and indirect impacts of the Limestone hydro-electric development project, and the probability that work also will begin on the Conawapa station during the forecast period.

The 1200-MW Limestone generating station will cost approximately \$1.9 billion and create 16 000 person-years of employment (5 000 direct, 11 000 indirect). Conawapa will be a slightly bigger facility.

Construction on Limestone began in the fall of 1985 (although some preliminary work was done in the late 1970s) and the project is expected to be completed by 1992. Manitoba Hydro is prebuilding the Nelson River system in relation to domestic demand, basing this decision on export sales.

The Manitoba Energy Authority signed a contract (approved by the National Energy Board in February, 1985) with Northern States Power Company of Minneapolis for the export of 500 megawatts of firm power per year, for a 12-year period beginning in 1993. The Manitoba government considers the proceeds from this sale to be adequate compensation for moving the Limestone construction schedule up a few years. Further sales are expected.

Prospects for other goods-producing sectors are less promising, particularly at the primary level. Agriculture's contribution to growth is expected to moderate during the next few years. Volumes are already high with little room for additional growth. Grain and cattle prices are expected to remain weak for a few more years at least, resulting in flat or declining farm cash receipts. Production costs will continue to rise, maintaining the pressures on net farm income that exist today. There will be no employment increase in the farm sector and a slight reduction remains a possibility.

At best, the mining sector is expected to remain stable over the forecast period.

Sherritt Gordon's operations around Lynn Lake are undergoing a transformation with the shutdown of the Fox Mine (copper/zinc), the expansion of the Ruttan Mine (copper/zinc) and the development of the MacLellan Mine (gold). The net result should be a very slight increase in total employment for this company. Low metal prices (particularly for copper), the pressure for environmental controls and the need for expensive, modernized smelting capacity could eventually threaten the viability of the cluster of mining activities around Flin Flon.

Nickel should be a bright spot for the sector as Inco's Thompson operation is one of the world's lowest-cost producers. Nickel prices are low however, so little growth is expected in the short term.

New mineral deposits in various parts of the north are being analysed. However it is unlikely that any new commercial operations will emerge over the short-to-medium term. Despite overcapacity and poor world markets, Manitoba is hopeful that a potash deposit near Russell will be developed shortly.

Manufacturing should experience slow but stable growth overall. Above-average growth is expected in a few sectors such as electronics, aerospace, automotive components, clothing, printing and publishing, whereas difficult times are likely to continue for the important agricultural equipment and bus industries. Slow but stable growth is expected in the food and beverage sector which accounts for 28.6 percent of all manufacturing shipments.

The largest gains in output and employment will continue to be in the service sector. Strong employment growth is expected in trade and in community, business and personal services. More moderate growth is likely in finance and transportation as these are at more mature levels of development. Public administration also is likely to grow at a moderate, but stable, rate as fiscal restraint at all levels of government is partially offset by growing demand for public services.

The unemployment rate should gradually decline for the next five years at least. Women and youth will continue to experience higher-than-average unemployment. There is also a high degree of "hidden" unemployment in Manitoba as the statistics do not account for unemployment of status Indians living on reserves. The three Prairie provinces, with their large reserve populations, would not be considered such low-unemployment regions if this factor were fully accounted for.

3. MAJOR ELEMENTS IN THE ECONOMY

i) Overview

Manitoba, while considered an agricultural, "prairie" province, enjoys a diversity that makes it less dependent on one or two industries than other regions.

For illustration, during the three-year period 1972-1974, Manitoba enjoyed real output growth rates of 5.3 percent, 6.7 percent and 3.9 percent. Real agricultural output, however, was abysmal, with declines of 13.9 percent, 1.1 percent, and 31.4 percent respectively. While agriculture drives a large portion of the economy in the long run, the effects of its fluctuations are mitigated by the importance of manufacturing, service industries and hydro-electric energy development.

ii) Manufacturing

The manufacturing sector accounts for roughly 12.5 percent of provincial output and employment. This is more than the total share for all primary resources, but less than manufacturing's share of total Canadian output (21 percent). Annual value of shipments is approximately \$5 billion.

The manufacturing sector has a number of distinguishing characteristics that affect its current state and future development prospects. These include:

- * **Diversity:** Food and beverage processing, as in most provinces, accounts for the largest share of manufacturing output (28.6 percent and declining). Aside from this, no other single sector accounts for more than nine percent of the industry. Manitoba is represented in 18 of the 20 statistical manufacturing industry categories. Winnipeg is considered to be one of the most diversified manufacturing centres in North America. Diversity is a positive feature in that it facilitates cyclical stability and the development of inter-industry linkages.
- * **Shallowness:** Aside from food and beverages, there is little depth in any manufacturing sectors, which is a constraint to growth through specialization. While Manitoba suffers from a lack of depth in specific industries compared to more highly industrialized regions, it is more fortunate than most slow-growth regions in that its industrial diversity provides it with a foot in the door. It is easier to build upon than to create.

* **Small Scale:** Of the 1530 manufacturing firms in Manitoba, only eight employ more than 500 workers and of these, only four have more than 1000. While Manitoba is close to the national average in terms of the share of business that can be defined as "small", the same is not true for manufacturing as is shown in Table 3.1.

Table 3.1
Percentage Of Total Manufacturing From Firms With Less
Than \$2 Million In Sales (1979)

	<u>Canada</u>	<u>Manitoba</u>
Employment	42	59
Sales	9	27
Establishments	89	92

The small-business orientation of Manitoba's manufacturing sector is due primarily to the small local market that does not promote economies of scale and to traditionally high levels of local entrepreneurship. On the positive side, these firms tend to derive investment and working capital from earnings, resulting in lower financing costs. Wage costs tend to be lower. Also, they can be fairly flexible in meeting changing conditions and, because of the high degree of local ownership, profits tend to stay in the region. Small manufacturers in Manitoba also have problems: they tend to be less aware of technology and international marketing; they tend to have a more narrow product base over which to spread risk; and, of course, their per-unit costs tend to be higher.

* **Geographic Concentration:** Roughly 80 percent of manufacturing employment is in Winnipeg. This concentration of industry has several economic benefits -- most notably in terms of the efficient provision of industrial infrastructure and labour and transportation inputs and in the evolution of specialized service and supply industries. One drawback of industrial concentration is the perception that other parts of the region are being "left out", with government support for industry leading to the perception of policy favoritism.

* **Export-Oriented:** Due to small local markets, Manitoba's manufacturing sector has become highly export-oriented. Manitoba is five times as export-oriented in manufacturing (exports of manufactured goods as a proportion of total exports) as the other Prairie provinces. Between 1973 and 1981 Manitoba's manufacturing exports grew at twice the national rate (more recent data not available). The province accounts for half of Canada's agricultural machinery exports, a third of the bus and bus chassis exports, a quarter of the exports of outerwear clothing and approximately

10 percent of aerospace exports. Roughly 80 percent of Manitoba's manufacturing exports are to the U.S. (compared to 70 percent for Canadian exports). The Buy America program has hurt Manitoba bus exports and rising protectionist sentiment in the U.S. is a cause for concern, particularly with respect to steel, lumber, hogs and pork products.

iii) Agri-Food Complex

Farm production value reached \$2.2 billion dollars in 1984, 68 percent from the sale of crops and 32 percent from livestock and related products. The agricultural sector is diversified, with wheat accounting for a relatively small 65 percent of crop production and cattle and calves less than 40 percent of livestock production.

While primary agricultural production accounts for only five to six percent of Manitoba's real domestic output and nine percent of employment, the complex as a whole represents about 25-30 percent of the economy.

It is useful to view the agri-food complex as an integrated whole (in spite of the fact it represents a hodge-podge of primary, secondary and tertiary production) because of the interdependence of all of the components. For example, freight rates on grain affect net farm incomes, which in turn affect production choices on the farm, and these choices have price and supply implications for the food and beverage sector with its high wages and heavy employment.

The agri-food complex represents one of the few areas of economic activity where Manitoba has a comparative advantage. A wide variety of factors are limiting the further development of the sector.

The major trends and conditions affecting Manitoba's agri-food complex are described below.

- * **Low Net Farm Income:** Rising production costs and low prices for agricultural commodities have produced a steady decline in real net farm incomes. For example, 1984 was considered a good year for net farm income in Manitoba, reaching \$372 million. This is still lower, in current dollars, than the amount reached in 1974 (\$387 million), and it has been lower in each of the intervening years.

Net farm income growth has not kept pace with other major provincial income components as is shown in Table 3.2.

Table 3.2
Major Income Components: Manitoba 1974 and 1984

	(\$ millions-current)		<u>percentage change</u>
	<u>1974</u>	<u>1984</u>	
Labour income	3 270	8 905	172
Corporation profits before taxes	639	1 055	65
Accrued net income of farm operators	387	372	-4
Investment income	327	1 696	419
Net income of non-farm unincorporated business	303	873	188

The problem is largely one of a worldwide shift in wheat markets. In the 1980s the total demand for exported wheat levelled off at about 100 million tons. However, world farmers grew some 514 million tons of wheat, compared to only 360 million in 1974. The two factors combined have had a depressing effect on prices. Overseas grain producers are, in many cases, highly subsidized and protected.

Specialty Crop Production: While specialty crops are still a relatively small portion of total production, Manitoba produces 100 percent of Canada's sunflowers, 47 percent of the field peas, 40 percent of the flax and 37 percent of the sugar beets. Corn and potatoes also are grown in substantial quantities. Diversification into more specialty crop production is an important part of the development of the agri-food sector, as the province is favored with the soil and climatic conditions necessary for such production. Such shifts require market development, however. Specialty crop production has been troubled in recent years as well. Sugar beet production is geared to an industry facing severe international competition and corn acreage has been reduced sharply in recent years due to market weakness and crop problems.

Decline of Food and Beverage Sector: This sector has been growing at a very slow rate for some time. Food and beverages accounted for 41 percent of Manitoba's manufacturing value of shipments in 1974 and by 1984 the percentage had fallen to 28.6 percent (roughly \$1.5 billion). There has been a slight decline in the absolute number of establishments and employees in the sector since 1971. The meatpacking and

oilseed-crushing industries are in a period of rationalization. Other sectors such as flour, cheeses, breweries, soft drinks and frozen foods are facing mature markets. Manitoba has had some success in the promotion of specialty food products, which is likely to continue. Conversely, tariff and non-tariff barriers in Japan and other Pacific Rim countries, the European Economic Community and the U.S. have limited potential exports from Manitoba. Manitoba's agri-food sector is constrained in its development by a wide variety of domestic and international policies. As a relatively low-cost producer of a wide variety of primary and secondary foodstuffs, the province suffers when other jurisdictions decide to subsidize their domestic industries or to impose trade barriers. The transportation system still encourages raw exports at the expense of local processing.

iv) Service Sector

The service sector has become the dominant segment of all provincial economies. In Manitoba the combined service industries account for approximately 71 percent of output and employment, which is substantially higher than the national average of 64 percent.

For a number of historical and geographic reasons, Manitoba has a disproportionate number of insurance, land development and trucking head offices. Winnipeg is an international grain trading centre, and the site of Canada's only commodity market. Winnipeg is a regional head office for a wide variety of banks, government departments, transportation and trading companies. It is a wholesale centre (although not to the extent it once was) and a medical research centre. Like most medium-to-large cities, Winnipeg has a growing number of knowledge-based service industries, ranging from software firms to consulting engineers and architects.

While the service sector is the largest component of the economy, it also is the least understood from an economic development viewpoint. Some facts and trends have emerged in recent years, including:

Employment growth: Virtually all of the new jobs created in Manitoba over the last decade have been in service industries, particularly trade, personal services and public administration. This is expected to be a long-term trend.

Population-sensitive: Service industries grow largely as a function of population. They also tend to be urban-based. Over 70 percent of Manitoba's service employment is in Winnipeg.

Exportable: While most services are consumed locally or regionally, there is a growing market for the export of knowledge-based services. The availability of strategic commercial services is becoming more important in strengthening and attracting industrial investment. Development policies in the future will give greater recognition to the direct and indirect role of key service industries in the development process.

v) Hydro-electric Development

All the surface waters from the foothills of the Rockies to a point slightly west of Lake Superior flow through Manitoba, a watershed of 843 273 square k.m.. Roughly 40 percent (4000 megawatts) of potential generating capacity (10 200 megawatts) has been developed to date.

As described in Section Two, Manitoba Hydro has begun work on the 1200-MW Limestone generating station. This could be followed by the slightly-larger Conawapa station, leading to some 15 years of large-scale construction work in northern Manitoba.

The construction of these plants will be the major growth component in Manitoba until completion. The economic development impact of hydro-electric development beyond construction and construction-related activity will be determined by three broad factors:

- * the profitability of existing and future sales arrangements leading to the expenditures and debt for additional capacity;
- * the extent to which native participation in the mainstream economy is enhanced through construction-related hydro employment; and
- * the extent to which Manitoba's abundant, low-cost hydro-electric power is used as an industrial development lever.

It is premature to predict the outcome of these factors, although previous efforts respecting native employment and industrial development have been somewhat disappointing.

4. MAJOR ISSUES

i) Overview: The Need for Economic Adaptation

Section Three outlined Manitoba's sectoral diversity. Each key sector faces challenges to long-term growth or, in some cases, survival. Economic development also has a geographic component. Manitoba has three basic geo-economic regions, the northern primary resource region, the southern agricultural region and the manufacturing/service economy of Winnipeg. Some communities in these regions face adjustment challenges as their underlying economic structures shift.

Finally, a successful economy is one that fully utilizes its human capital and Manitoba faces several challenges in this regard, particularly with respect to the participation in the economy of Manitobans of native ancestry.

ii) Sectors

The environment facing Manitoba's key industries is shifting towards increased competition due to the globalization of trade, less government regulation and financial assistance, and rapid technological change. To adapt to these factors, all industries must increase their productivity and competitiveness. Productivity factors are complex, varying not only between sectors but between firms.

In agriculture, more emphasis is required on farm management, basic research, soil and water conservation and market development. Government programs and regulations should be reviewed to determine whether they promote efficiency in the farm sector. The traditional emphasis on bringing new land into production or improving marginal lands should be examined. In the food processing sector, emphasis is required on new product development and export promotion (e.g., specialty meats in California and Japan).

In manufacturing, productivity-improving efforts will have to overcome the special constraints of small-scale production. Industry associations can play a key role in technology transfer and market development processes. The clothing industry in Manitoba is the best example of the benefits to be gained from inter-firm co-operation.

Another small, but potentially significant thrust would be to improve quality control, particularly for electronics, machinery, food and transportation equipment industries. Large plants in Winnipeg are by-passing potential local suppliers due to the latter's lack of rudimentary (and often inexpensive) quality control procedures and systems.

Finally, the continued good health of Manitoba's few large firms is also strategically important: they are focal points for development and their success or failure has a major psychological impact on other investors.

Manitoba will always be a major transportation centre due to geography. Manitoba's economy is almost twice as transportation-intensive as Canada's, with modal operations and regional and national head offices accounting for a large share of employment, particularly in Winnipeg. The head offices of eight of Canada's fourteen largest trucking firms are in Winnipeg, the railways maintain large yards and repair facilities in the city and the air mode is represented by major regional operations and overhaul and maintenance activity.

The various components of the sector experience ups and downs. However, the transportation system in general is expected to undergo rationalization in response to deregulation, freer Canada-U.S. trade and other competitive factors. The net effects can't be predicted yet -- one way or the other Manitoba has a very large stake in the rationalization of Canada's transportation system.

Manitoba has a similar stake in the evolution of the financial services industry. Winnipeg is headquarters to a number of insurance companies and investment houses and their growth prospects over the long term will be a major factor in Winnipeg's economic renewal.

Maintaining an attractive investment climate will be a major challenge as competition increases for the industrial investment dollar. Manitoba fares well in comparisons of personal taxes and charges, but less well in terms of corporate tax rates.

Manitoba enjoys a high degree of indigenous ownership and investment; only 30 percent of manufacturing is foreign-owned, compared to 50 percent nationally. The province offers investors low electricity, water and land costs, a skilled labour force with relatively low wages and a low propensity for labour disputes, a highly developed social and economic infrastructure and a central geographic location.

Conversely, Manitoba is land-locked, distant from mass-consumer and industrial markets and suffers from an adverse image both locally and abroad. The business community also has complained about Manitoba's labour legislation and the "payroll" tax. The cultivation of a favourable business environment and the effective promotion of the province as a good investment location are major challenges for the future.

The prospect of increased trade liberalization with the U.S. is seen to be beneficial to Manitoba's long-term development interests. Manitoba industry functions in a fairly open environment at the present time. As well, manufacturers in the province on numerous occasions have demonstrated their ability to innovate and adapt. Of course, certain firms will be affected in a negative way and supportive policies will be required to ease the labour force transition.

iii) Communities

No province in Canada is dominated by one city to the same extent as Manitoba (for example, no other province has more than 50 percent of its population in one city). Winnipeg is undergoing a slow, basic transition from being a national link between Eastern Canada and Western Canada, to becoming a regional centre. It has undergone a transition from a downtown-oriented wholesale merchandising/transportation centre to a suburban, manufacturing centre. Some of its major industries are undergoing rapid change (e.g., meat packing, clothing, transportation).

One constant remains. People continue to migrate to the city in search of jobs. Early migration came from the farm sector during the mechanization of agriculture. Today's migrant is typically a young native woman with small children and little education, work experience or knowledge of urban life and who is fleeing the extreme poverty on northern and rural reserves.

Winnipeg, as the region's manufacturing and service centre, is the locus for migration in Manitoba. The city has a special "growth-pole" role to play in Manitoba's long-term development.

Like most provinces, Manitoba also has a number of single-industry communities (e.g., Lynn Lake), or centres (like The Pas, Churchill, or Flin Flon) that are virtually "single-industry" due to their heavy reliance on one firm or a single function. These communities will be challenged continuously to maintain their economic viability. Public policies are needed to facilitate adjustment, where necessary, and to support economic diversification.

Several communities in rural Manitoba are successfully diversifying their economic bases to reduce dependence on the nearby farm sector. Nevertheless, major changes are foreseen for many southern communities, particularly as the transportation system adjusts to the new regulatory environment.

iv) People

Aboriginal people (including 52 000 Status Indians and an estimated equal number of Métis and non-Status Indians) comprise roughly 10 percent of Manitoba's population, 15 percent of the population of labour force age and 20 percent of labour force growth. (Note: these are crude estimates only as demographic and labour force data regarding aboriginal people are inadequate.)

Conditions on Manitoba's reserves are typified by the following:

- * Children in government care number five times the national average.
- * 20 percent of children finish secondary school (national average 75 percent).
- * Average income is one-half to two-thirds national average (most of this from government transfers).
- * Unemployment rates range from 35 - 90 percent.
- * Suicide rate is three times national average.

Native people comprise between 40 and 50 percent of Manitoba's prison population, their juvenile delinquency rate is three times the national average and their rates of alcohol and chemical abuse are much higher than the national average. While these may be social problems, they also have a major economic dimension that is often overlooked.

Federal economic development and employment expenditures directed in whole or in part towards Manitobans of native descent are in the order of \$80 million for the fiscal year 1984/85, touching some 35 programs. (Note: These are rough estimates only, derived from a quick review of federal departmental activities in Manitoba.)

The native population is relatively youthful; by 1991, one in three new entrants to the Manitoba's labour force will be of native ancestry. Large numbers of young people are leaving reserves and moving to urban centres. During the past decade the urban proportion of Canadian population began to decline -- reversing a century-long trend towards urbanization. The same is happening in the U.S. and Europe. Probably the only place where it isn't happening (certainly the only place in Canada) is in the Prairie provinces and in Yukon, both areas with high proportions of native population. Urbanization is still increasing in these regions and should continue to do so for the foreseeable future.

The political and jurisdictional constraints to effective economic development approaches for Manitobans of native ancestry are daunting -- not only between levels of government, but within the native community as well. The urbanization trend is worsening the negative effects on these institutional divisions.

Judging from today's circumstances it is clear that past efforts aimed at economic development for natives have failed. A reasonable approach would seem to consist of encouraging migration from resource-barren communities to urban centres and in providing the necessary support at both ends to make the transition successful, i.e., to build bridges to assist native people to participate in the mainstream economy. It is difficult to imagine how these social and economic problems can be solved without a massive push in education, both in native communities and in urban centres.

Other human-capital issues face Manitobans as well. With the trends toward freer trade, industry rationalization and technological change, greater emphasis will have to be paid to workforce adjustment and re-training. Greater flexibility will be needed in the workforce.

Finally, the scientific community in Manitoba will play an increasingly important role in Manitoba's economic development. Knowledge-based industries will supply most of the jobs in the future, and they revolve around key individuals. Manitoba has a core of research and development talent in the areas of medical, agricultural, industrial and computer research. A challenge for the future will be to entrench and deepen the scientific research and development community in a strategic way in order to support industry and spawn industrial entrepreneurship.

5. CONCLUSIONS

Manitoba is in the paradoxical situation of facing good overall growth prospects for the near-to-medium term, coupled with several structural problems that could constrain economic prosperity over the long term.

Manitoba is still small enough that a large construction project can generate strong provincial growth. Hydro-electric development on the Nelson River offers the prospect of construction-led growth for up to 10 to 15 years.

These projects, while important for their stimulative effect and as potential precursors to economic development, do not themselves represent such development. Fundamental problems exist in Manitoba's key manufacturing and agriculture sectors. The city of Winnipeg faces a major challenge to maintain its role as a major service and supply centre providing employment opportunities for rural migrants and a growth dynamic within the province. Other communities and regions face similar problems and challenges on a smaller scale.

Manitoba's large and youthful native population faces problems that are distressing by international standards. Pressures for improved conditions and greater economic participation on behalf of native peoples will intensify in the coming years.

Economic development efforts must focus on these structural issues in order to promote successful adaptation to the emerging economic environment.

