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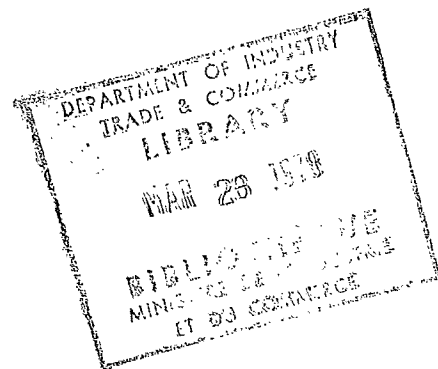
Gouvernement
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Regional
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ECONOMIC CIRCUMSTANCES AND MEDIUM-TERM PROSPECTS BY PROVINCE

FEBRUARY 1978



ECONOMIC CIRCUMSTANCES
AND MEDIUM-TERM PROSPECTS BY PROVINCE

*One of a series of discussion papers
prepared for the federal-provincial
consultations on the economy*

Canada.

Department of Regional
Economic Expansion

February 1978

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INTRODUCTION

As part of its regular analytical work, the Department of Regional Economic Expansion reports periodically on short-term prospects for the provincial and regional economies. Brief summary reviews have been prepared by the provincial and regional offices of the department and have been assembled into this single report. However, it should be noted that the focus of these reviews has been slightly enlarged to reflect the current interest in medium-term economic issues and prospects.

Economic circumstances at any point in time vary from province to province. But many of the major economic development issues have a regional dimension which cuts across provincial boundaries. To attempt to deal with this in part, regional overviews for the west and for the Atlantic provinces precede the provincial reports in their respective sections.

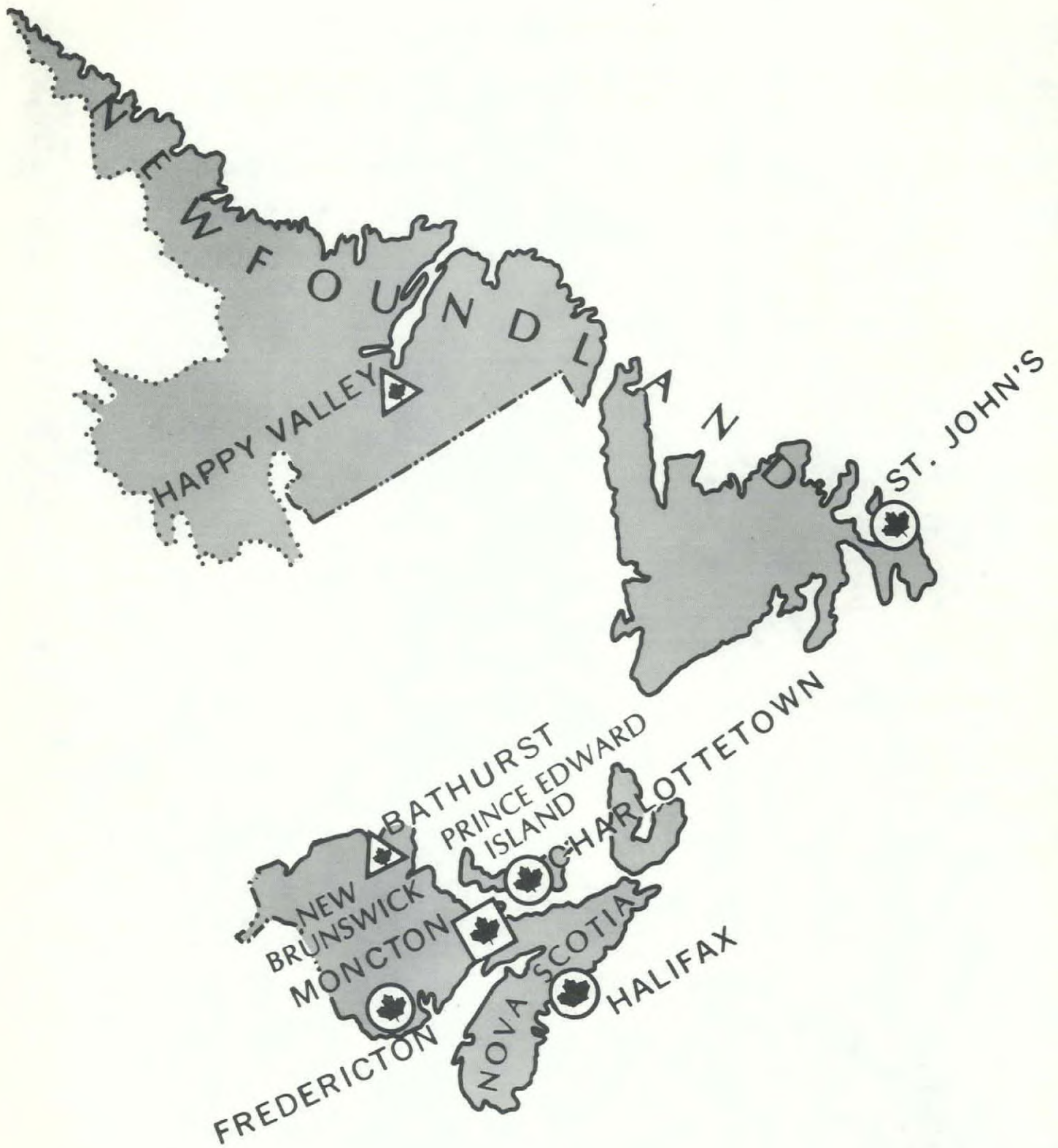
Although each region in Canada does develop in its own distinct way, it is nonetheless true that economic activity in each of the regions is closely related to economic activity in the country as a whole. Several factors had an overriding impact on the economic events in Canada over the last 24 months. Generally, the modest cyclical recovery of the national economy which began after the mid-year of 1975 and the beginning of 1976, slowed somewhat in 1977 with a growth of real Gross National Expenditure (GNE) of less than 3 per cent for the year. As a consequence, the overall situation in the labour market deteriorated as the average unemployment rate went from 7.5 per cent in 1976 to over 8 per cent in 1977. The investment climate remained uncertain in 1977 and inflation averaged more than 9 per cent.

Indications are that economic conditions will improve over the course of 1978 as the real rate of growth of GNE should approximate 5 per cent. Some strength should come from domestic consumption but the dominant strength will be in exports, buoyed in part by the devalued Canadian dollar. The investment climate for 1978 and the medium term seems to be improving, although little reduction of the unemployment rate is expected in the short-term as the growth of employment continues to be relatively sluggish. Increasing pressures on domestic prices are expected to abate.

While prospects for economic development exist in every province over the medium term, economic performance is not expected to be equally distributed. The Atlantic provinces have been particularly affected by the

downswing in the economy which started in 1975 and have lost some of the relative gains which they had made in the late sixties and early seventies. The Quebec economy continues to suffer from structural problems which have affected the manufacturing sector since the early 1960s. Notwithstanding these difficulties, there have been buoyant periods linked especially with large public undertakings (Expo, Olympics, hydro-electric projects). The Ontario economy will continue to be dominated by cyclical variations generated mainly by the foreign sector but will maintain relatively stable growth. In 1976, for the first time Real Regional Domestic Product in the four western provinces exceeded that for Quebec and the Atlantic provinces combined, and medium-term prospects are encouraging. This growth is not shared equally by all four provinces. The provinces of Saskatchewan and to a lesser extent Manitoba fluctuate largely according to the returns from agriculture. Alberta and British Columbia can expect further above-average growth based on continued resource-tied developments.

Each of the provincial reports contained in this publication concludes with a section outlining some of the major economic development prospects for that province. While every attempt has been made to focus on the significant opportunities in the medium term, it is obviously not possible to be absolutely comprehensive in this endeavour and it can be expected that additional opportunities to enhance the prospects outlined in this document may well be identified.



- ☐ REGIONAL OFFICE
- ⊙ PROVINCIAL OFFICE
- △ BRANCH OFFICE

ATLANTIC REGION

OVERVIEW

The economy of the Atlantic Region experienced some significant growth during the 15-year period 1961-76. Total regional output measured by Real Domestic Product (RDP) increased by 100.7 per cent, some 17 percentage points lower than Canada as a whole over the same period. On a per capita basis, however, the RDP in the Atlantic Region increased slightly faster than that of Canada, 74.6 per cent compared to 72.9 per cent.

The impact of the current recession is still affecting the Atlantic economy and, as a result, in 1976 RDP increased by only 3.3 per cent compared to 4.8 per cent for Canada. Moreover, it is recognized that the Atlantic economy in 1977 will have recorded a lower increase in RDP than that for Canada.

As a result of a reversal in migration trends and a rapidly increasing participation rate since the early 1970's, the Atlantic Region labour force increased faster than the Canadian average, and despite a high rate of employment growth, the net result was an increasing unemployment rate. The region is expected to lag further behind Canada in 1978.

Over the medium term, however, the prospects for the region are for a resumption of the early 1970s' rates of output growth, at annual rates of some 5 to 6 per cent per year. This recovery, however, hinges on the realization of a number of development opportunities and increased demand both from the rest of Canada and from abroad.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The Atlantic Region's population increased by less than half the Canadian rate in the 1961-71 decade, as a result of out-migration of some 15 000 persons per year. However, because of a reversal in migration trends, the region increased its population by 6.1 per cent in the 1971-76 period, only

marginally less than the average Canadian performance. During this period, the net in-migration into the region was in the order of 2 000 persons per year.

Provincially, Newfoundland continued to lose population through migration in the early 1970s (although at a lower rate than previously), while the Maritime provinces all registered net in-migration. Preliminary data for 1977 suggest that Prince Edward Island and New Brunswick increased their net in-migration last year.

Over the medium term, the region is not expected to maintain the level of in-migration experienced so far this decade, nor is a return to net out-migration expected. High unemployment rates nationally are expected to affect out-migration negatively while some return trend to rural living combined with higher housing costs elsewhere in the country will tend to encourage some continued in-migration.

Labour Market

While the employment growth rate in the Atlantic Region was only two-thirds that of Canada in the 1961-71 period, labour force growth in the same period lagged behind Canada by a wider margin. As a result, the regional unemployment rate gradually declined throughout the decade in spite of the relatively poor performance in employment growth.

The 1971-76 period was very different, as employment grew at a pace only marginally lower than that of Canada. However, as a result of increasing population, the age structure of the population and increasing participation rate (marginally faster than that of Canada), the regional labour force grew faster than that of any other region in Canada. Consequently, the unemployment rate, which was only 0.8 percentage points higher than that of Canada in 1971 increased to 3.8 percentage points higher than Canada's rate in 1976.

In 1977 employment creation grew by only 0.8 per cent, resulting in a regional unemployment rate of some 12.6 per cent (November 1977), some 4.7 percentage points higher than the Canadian average.

Future prospects in the labour market are for continued high unemployment throughout 1978. Decreases in unemployment should occur starting in the 1979-80 period, when a number of planned projects come on-stream.

Investment Climate

Over the 1971-76 period, the Atlantic Region registered an increase in capital expenditures of some 60 per cent, compared to 108 per cent for Canada. The region did, however, experience rapid growth in housing, in trade, in finance and commercial services and in utilities, all of which more than doubled over the period. On the other hand, manufacturing investment, which had reached a peak in 1971, had suffered a decline of 42 per cent in current terms by 1976.

In 1977, capital expenditures in the Atlantic Region are expected to have increased by 4.5 per cent compared to 10.5 per cent for Canada as a result of expected declines in both manufacturing and housing. But prospects for 1978, according to the October Industry, Trade & Commerce large firms investment survey, appear to be bright.

Over the medium term, investment is expected to return to its normal growth as a result of a number of known and projected major projects, although the IT&C survey reports that over that period, firms are revising their intentions downward more in the Atlantic than for Canada in general. Housing and manufacturing should both pick up considerably. The restrictive policies of both federal and provincial governments are expected, however, to moderate this growth.

Sectoral Review

For real output, gains were realized in every sector except agriculture over the 1961-76 period. In terms of the share of total Real Domestic Product, agriculture and forestry declined, fishing and mining remained stable, while manufacturing and utilities increased. In employment, the service sector's share of total employment grew faster than those of all other sectors, with the primary sector registering a sharp decline.

- Agriculture has been steadily declining in importance, both in terms of output and employment, but this industry is expected to stabilize over the medium term. In addition the agricultural sector makes an important contribution to the food-processing industry.
- Forestry has also declined in relative importance over the years, and while the industry should be able to maintain its present level, no significant growth is expected. The widespread budworm infestation and uncontrolled exploitation of the resource in the past have reduced the quality and quantity of raw materials available to the industry.
- While the fishing industry increased in importance in the 1961-71 decade, the depletion of stocks resulted in a sharp decline in relative importance after 1971. The Atlantic fishery has good growth prospects over the medium to long term, however, as a result of the 200-mile economic zone, together with the expected recuperation of stocks.
- The Atlantic Region manufacturing sector increased its share of the total Real Domestic Product by some 4 percentage points from 1961 to 1974. However, the recession has caused a decline in the sector since 1974, and a resumption of normal growth is not expected until the idle capacity is taken up.

Manufacturing accounted for 13.5 per cent of total regional employment in 1976, a decline from the pre-recession period. Employment has grown slowly in the sector since 1966, and the increased output is mostly a result of improvements in productivity.

The manufacturing sector was hit hard by the recent recession. Employment declined by 8.3 per cent from 1974 to 1976. In addition, because manufacturing investment has been decreasing since 1974, it will take several years before the sector catches up to its potential. Over the medium term (to 1985), a turn-around can be expected in investment, and notwithstanding a few adjustments from the multilateral trade negotiations, the region can be expected to profit from the lowering of tariffs.

- The service sector is by far the most important in terms of both real output and employment. In terms of production, its growth performance from 1961 to 1977 was approximately the same as the regional economy as a whole and in 1977 the sector's share of total output stood at about 70 per cent. Employment, however, registered the highest increase of all sectors and by 1977 over 70 per cent of employment was in service jobs, some 5 percentage points higher than the average for Canada.

Underlying the growth in employment in services were two major factors. First, the rise in personal income - in part due to increased transfer payments - led to an increase in the demand for services and, hence, increased employment in that sector. Secondly, the growth in existing government services and the new functions assumed by government led to a dramatic increase in government and government induced employment.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The performance of the economy of the Atlantic Region over the next five years will in large part depend upon the growth of the Canadian and United States economies. While the current recession is still having a negative impact on the regional economy and will undoubtedly impede labour market performance throughout 1978, prospects for growth beyond that look more encouraging. However, these prospects are based on the realization of a number of specific opportunities and the removal of identified constraints.

The importance of the fishing industry is expected to grow as the region takes advantage of the extension of fisheries jurisdiction to 200 miles. Realization of new opportunities generated by the adoption of the 200-mile limit will require involvement of the federal and provincial governments as well as processors and fishermen. Stocks are not expected to recover generally before 1985 but some investment in expansion and fleet modernization should begin before that date. Further, infrastructure improvements and shore-based production facilities will form an important part of the revitalization of the industry.

In forestry, notwithstanding the resource problems, investments will be required according to market demand to modernize some of the obsolete pulp and paper mills and to rationalize the sawmilling industry. The industry will have to adapt to a greater utilization of hardwoods as a result of budworm infestation.

The base-metal reserves of northeast New Brunswick are considered of sufficient size and quality to support a refinery, but it will not likely go forward in the near term because of the depressed international market for zinc. Over \$100 million is to be invested in a potash mine development in the Sussex area. The importance of coal mining is expected to increase and there is a possibility of opening additional strip mining operations for coal-fired power plants.

The outlook for Atlantic Region manufacturing industries is for a gradual return to normalcy. Recent announcements by the steel industry are encouraging. The Trenton car works was recently awarded a Venezuelan contract amounting to \$40 to 45 million and Sydney Steel is attempting to gain a related \$45-million contract for steel rails. Shipyards may benefit from the fishing fleet expansion and modernization but the Halifax shipyards are expected to have difficulties unless major ship repair activity can be generated. Some benefits from the 200-mile fishing limit will begin to accrue to fish processors over the next five years.

Two major energy projects in the Atlantic Region are under active investigation. The Fundy Tidal Power Project is considered to have important potential and, if studies now underway prove the feasibility and viability of the project, some construction activity could occur before 1985. Secondly, a major hydro-electric power project at Gull Island on the Lower Churchill River in Labrador has been under investigation for several years.

The National Energy Board has given its approval for the construction of a liquified natural gas transshipment terminal at Lorneville near Saint John, New Brunswick. The potential benefits are three-fold: employment and income generated directly by the construction and operation of the transshipment terminal; the increased activity in shipbuilding, ship repair facilities and other manufacturing and services requirements; and the potential availability of energy for Atlantic industrial and domestic consumption.

NEWFOUNDLAND

OVERVIEW

Since 1971 real output growth in Newfoundland has slowed to an average annual rate of 2.7 per cent, compared with an annual average rate of 6.6 per cent in the 1960s. The 1970s have seen a period of prolonged recession in which the Newfoundland economy has experienced simultaneously high inflation and high unemployment. Real output experienced virtually no growth in 1977. Since 1961, however, growth in personal income has been fairly consistent, as government transfers to persons have increased from 16 per cent of personal income in 1961 to 27 per cent in 1977. In 1978, economic activity should increase from the depressed levels of last year, but the unemployment rate will probably continue to rise. Looking to the medium term, the economic picture appears brighter than it did in the recent past, but a number of structural problems still remain to be solved.

Growth in the provincial economy is expected to improve over the next five years, although it is unlikely that it will attain the 6 to 7 per cent levels experienced in the 1960s. The traditional large-scale federal transfer payments along with the provincial government's operational expenditures (financed in part by long-term borrowing) are likely to remain subject to the present policy of restraint at both levels of government, and this will have a rather dampening effect on the prospects for expansion in the medium term. Moreover, private enterprise may hesitate to build up investment in the province unless the uncertainty about the long-run supply of energy in the province is successfully resolved. These adverse factors are likely to be counteracted somewhat by the promising prospects of the fishing, mining and forestry industries forecast for the next five years.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Newfoundland's current population is approximately 565 000. Its population growth since 1961 has remained fairly constant, averaging 1 to 1.5 per cent a year. No change is expected in this growth rate within the near future. Newfoundland continues to have an age structure characterized by a high dependency ratio.

Labour Markets

During the past several years the labour situation in Newfoundland has been dominated by growing unemployment. Since 1970 the labour force has increased 38 per cent to 191 000 in 1977; however, the growth of new job opportunities has not kept pace and as a result the unemployment rate has risen from 13.6 per cent in 1976 to 15.9 per cent in 1977. The labour force participation rate in Newfoundland has increased from 43 per cent in 1970 to almost 51 per cent in 1977, which is still well below the national average of 62 per cent. Average weekly wages and salaries in Newfoundland were approximately 97 per cent of the national average in 1977, and experienced a marginally slower growth in the past year than did average weekly wages and salaries at the national level.

Investment Climate

Since 1971 gross public and private investment expenditures have increased at an average rate of slightly over 4 per cent per annum. After discounting for inflation this represents a negative real growth of approximately 4.5 per cent per annum. The construction industry and utilities were especially hard hit by a general decline in investment this past year. Major hydro-electric projects point to the probability of a brighter future in 1978 and over the medium term.

Sectoral Review

- The volume of fish landings during the 1970s has more or less maintained the same level, although this is a reduction compared to landings in the 1960s. Total value has been constantly increasing due to higher prices on world markets. The successful implementation of the 200-mile fishing limit will allow greater control of foreign catches, resulting in higher catches for Canadian vessels and more stability in fishing incomes.
- In the forestry industry, the closure of the Labrador Linerboard mill in August, 1977 will continue to have a major impact upon the future production of paper and related products in the province. Although the other two paper mills in the province experienced some downturn in recent years and early in 1977, they are currently operating at close to full capacity. With world markets slowly improving, the future of the paper industry appears somewhat brighter than it has in recent years. Even in Newfoundland the spruce budworm infestation is affecting the forest industry, and may have a detrimental effect on the forest-based industries in the future.
- During the 1960s the value of mineral production remained fairly steady. Since 1972 the value increased dramatically from \$290 million to \$756 million in 1976 due primarily to production of iron ore in Labrador. The temporary losses in output experienced by the iron-ore

industry in 1977 have already begun to recover as markets strengthen. With the exception of the closure of the fluorspar mine in St. Lawrence and the phasing out of the Buchans lead and zinc mine, the outlook for the mining sector appears encouraging.

- Growth in the value of manufacturing shipments was fairly consistent in the 1960s and early 1970s. The value of shipments dropped in recent years due to the closing of the oil refinery at Come-by-Chance in 1975, and the closing of the linerboard mill at Stephenville in 1977, both of which were major manufacturing projects. Growth in the value of shipments began to resume normal patterns in 1977 with an overall increase of 11.6 per cent. Any significant growth in the manufacturing sector in the future will likely occur primarily in the paper and fish products industries.
- Large-scale construction projects have traditionally had a major impact on the provincial economy, i.e. the Trans-Canada Highway, Churchill Falls, Come-by-Chance oil refinery, and so on. Due to the absence of any current large-scale projects, the construction sector of the provincial economy is in a very depressed state. A few major projects are on the drawing board, such as the Gull Island hydro project, but there is no clear indication when these might move ahead. Certainly they are to be viewed, however, as medium-term development prospects. Residential construction experienced a larger decline in relative terms in Newfoundland than in any other province in 1977.

Sub-Provincial Circumstances

St. John's on the east coast and Corner Brook on the west continue to act as the major centres of economic activity in the province. Both are growing rapidly as a reflection of the shrinking of employment opportunities in the rural economy. A number of smaller centres have been particularly hard-hit in the past year with closure of, or cutting back by, the towns' major employers.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The short- and medium-term outlook for Newfoundland's fishing industry is one of continued improvement. However, in order to realize opportunities emerging from Canada's adoption of the 200-mile economic zone, ongoing dialogue between the federal and provincial governments, the industry, and fishermen is required in order to meet the challenge of the next decade. Government involvement in support of infrastructure improvements and shore-based production facilities is an essential part of the modernization and revitalization of the industry. A concentration of effort through resource management, industry rationalization, international market expansion and infrastructure support will be necessary. Output in the industry is expected to double in the next five years, with a more moderate increase in employment.

Improvements in the markets for pulp and paper products in the United States and other foreign countries have resulted in near-capacity production for the province's two paper mills. Since contracts for the sale of paper products are made in foreign currencies and are long-term in nature, the recent devaluation of the Canadian dollar will be translated into a comparative increase in revenues for the two producers. Consequently, the short- to medium-term outlook is good. There also are opportunities to expand the sawmilling industry subject to a rationalization of its operating and marketing difficulties.

The future continues to hold promise for increased mineral production. The most recent expansion of the Iron Ore Company of Canada facilities in Labrador City has been completed, and there are extensive unexploited iron ore deposits. The demand for iron ore is expected to strengthen considerably in the future, which will more than offset the losses sustained in 1977. Moreover, there are possibilities of development of uranium deposits in Labrador within the next five years.

Mineral production elsewhere in Newfoundland may experience some setbacks and adjustment in certain mining communities in the short- and medium-term future. There are some indications for optimism concerning the possibility of new discoveries of economically exploitable base metal deposits.

Despite the serious setbacks of recent years, the short- to medium-term prospects of the manufacturing sector are moderately encouraging, due mainly to a turnaround in the fortunes of the fishing and paper industries which form the basis of the manufacturing sector. Output in the manufacturing sector is projected to increase by slightly more than 4 per cent in 1978.

Although real construction activity fell during 1977, it is expected to increase in the near future. The outlook for both residential and non-residential construction is improving. Utilities spending and construction activity is expected to improve with the recent announcement that the province intends to begin work on the \$80-million hydro project at Hind's Lake in central Newfoundland in 1978-79. Further improvements on the construction scene may occur in the next few years with the planned additions to the thermal generating plant at Holyrood.

The development of energy resources is seen as a key tool of economic growth in the province, and together with possibilities of the offshore petroleum and minerals it represents the major issues of concern for the future development of the province. As has already been pointed out, the Newfoundland government has been considering the development of the hydro-electric potential of the Lower Churchill River (the Gull Island hydro project). No final commitment has been made on this and, in the meantime, generating capacity is being expanded at existing thermal plants.

The potential offshore petroleum is considered to be a promising natural resource for the province. Industry reports suggest that if commercial finds are confirmed, production may be possible within the next decade.

Although oil and gas exploration had been stalled in 1977 awaiting settlement of jurisdictional problems, there are indications that exploration may resume in 1978.

It is expected that the tourism sector will experience growth and expansion over the next five to 10 years as a result of federal/provincial initiatives to improve services and encourage private investment in facilities. The shortness of the season and the cost of transportation to the province are the major constraints.

There may be long-term development opportunities in the future associated with Newfoundland's marine tradition and "North Atlantic Gateway" location. There is additional potential resulting from the 200-mile economic zone and offshore petroleum resources for Newfoundland in the areas of shipbuilding and repairs, marine services, transportation, and resource exploration and production.

PRINCE EDWARD ISLAND

OVERVIEW

From 1961 to 1971 the economic structure of Prince Edward Island remained virtually unchanged. The province continued to be heavily dependent upon agriculture, fishing and tourism. The 1960s were marked by slow population growth, substantial out-migration, and high seasonal unemployment rates. Since 1971, moderate advances have been made, with increased investment and some diversification of the Island economy, as well as modest population growth.

Real output grew by about 1 per cent in 1977, compared to almost 3 per cent for the country as a whole, and between 2 and 3 per cent in the neighbouring provinces of Nova Scotia and New Brunswick. Both wages and salaries and personal disposable income grew more slowly in 1977 than in 1976. Personal income grew by only 8.1 per cent, compared with 9.6 to 10 per cent in the other Atlantic provinces.

The most pressing constraints in the medium-term future for the Island economy involve energy conservation and future sources of energy supply, land-use reform and legislation, and further adjustment and modernization in the rural sector, the basis of the Island's economy and social fabric.

The prospects for the 1978-85 period are for stable, moderate growth, related mainly to the food-processing sector and other manufacturing industries. The size of the working-age population in Prince Edward Island is expected to grow at a slower rate through 1978-85 than it has during the past five years. The significant increase in participation rates which contributed to the rapid advance of the labour force is also expected to slow considerably. In the medium-term, therefore, the pressures on employment creation will weaken, and the employment situation will likely improve, although in 1978, the unemployment rate will likely rise to around 10.5 per cent.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The population of the Island in 1971 was 111 600, and approximately 120 000 at the end of 1977, an increase of more than 6 per cent. This unusually large increase was caused by migration into the province. Most of the population growth occurred around the province's major centres, Charlottetown and Summerside.

Labour Market

The labour force expanded from 36 000 in 1969 to 50 000 in 1977, an increase of more than 33 per cent in an eight-year period. This marked expansion in the labour force over such a short period is due to a confluence of factors such as the post-war baby boom effect, migration, and increased female participation in the labour force.

Although total output grew slowly in Prince Edward Island in 1977, a moderately strong employment growth of 2.7 per cent took place. The growth in employment was outpaced by growth of the labour force so that the average annual rate of unemployment in 1977 was 9.9 per cent, only slightly higher than the 9.8 per cent in 1976. In 1978, however, the unemployment rate is expected to climb to approximately 10.5 per cent. Average weekly wages and salaries in the province in 1977 were 75.2 per cent of the national average.

Investment Climate

New investment in buildings and machinery increased dramatically from 1969 to a new plateau in 1973, reflecting major expenditures in housing and government and institutional categories. After 1973, investment expenditures slowed down, due mainly to a sizeable cutback in housing construction. It is estimated that investment during 1977 picked up substantially in the public sector but remained cautious in the private sector, especially in manufacturing and utilities. Housing starts in 1977 were down by approximately 13 per cent from 1976 although this downturn moderated substantially in the last quarter of 1977.

Sectoral Review

- The agricultural sector has shown a significant improvement since 1966 but some setbacks have occurred in 1977 compared to the record harvest year of 1976. Potato and milk production underwent a decline in output and exports of agricultural products decreased from the 1976 level.

The proportion of the potato crop processed has risen from around 5 to 8 per cent to over 25 per cent in the last few years, which has in turn increased stability in the agricultural sector.

- The Prince Edward Island fishing industry is heavily dependent on one species, lobster, which is being fished at its maximum sustainable yield of approximately 11 million pounds per annum.

Lobster accounted for 65 per cent of the total landed value of all fish in 1977. The value of fish landings in 1976 was \$11.8 million, and \$11.0 million through the first 11 months of 1977.

A program has recently been introduced under the Comprehensive Development Plan which will compensate fishermen for the voluntary retirement of lobster licences. The goal is to reduce the number of lobster fishermen from 1 500 to 1 100. If the program goal is achieved, lobster will be fished at its maximum sustainable yield and the earned incomes of the remaining fishermen can be expected to increase.

- The number of tourists visiting the Island between May and September grew by over 10 per cent per year until 1976, when it declined 6.2 per cent. This decline was common to all the Maritime Provinces, with total tourist expenditures in Prince Edward Island during 1976 down 12 per cent from 1975. In 1977 there was a real increase in tourist spending of 1 to 2 per cent.
- The food- and fish-processing industries account for over 75 per cent of total manufacturing employment, so that the decline in output in 1977 in the agriculture and fishing sectors had a significant impact on the manufacturing sector. Output grew by only about 1 per cent, compared with 3.2 per cent for Canada as a whole.

Since 1974 initiatives have been undertaken to diversify the industrial sector on the Island. A number of new establishments which will produce and market higher technology products have located in Charlottetown. New industrial malls have been built in Charlottetown and Summerside to house a number of these smaller firms. Further developments of this sort are expected to continue for the next few years.

- Turning to the other sectors, the construction industry achieved a slight growth in output in 1977 due to increased activity in the last quarter of the year. The utilities sector will likely have experienced a decrease in output in 1977, and the service sector an even larger decline. Employment in the service sector in Prince Edward Island declined by 0.7 per cent in the first nine months of 1977, compared with an average rise of 3 per cent in Canada.

Sub-Provincial Circumstances

The Island, like most provinces, continues to experience an urbanizing trend. Most population growth is occurring around the two main urban centres, Charlottetown and Summerside, and the unemployment rates in these centres are appreciably lower than in the rural areas of the province.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

Moderate growth is expected for the next five years in the agricultural sector. Potential future developments include a cardboard-packaging manufacturing plant which would also serve other industries, a frozen-fast-food plant, the shipment of potato wastes to a beef feedlot, a potato information/communication centre, and a plant to produce alcohol from potatoes. The fishing industry is forecast to achieve a marked improvement in the short and medium terms. In addition to rationalizing the lobster fishery, the province is attempting to establish an aquaculture industry based on oyster harvesting. It is expected that the province's concerted efforts in recent years to increase the productivity of the Island fishermen will produce benefits which will be seen in the next five to seven years. The tourist industry is expected to expand due to the recovery of the United States economy and the devaluation of the Canadian dollar.

In the next year construction work for the Department of Veterans Affairs offices will begin, with the staff moving to Charlottetown in 1981. This project will create a number of construction jobs during the next three years and then 600 to 800 permanent jobs will be created. The province and municipalities are presently planning for this project to maximize its positive benefits. Other major construction projects in the near and medium-term future, such as the construction of the new hospital and the re-building of the airport, point to an optimistic outlook in the construction industry.

Industrial diversification has been an important development objective in Prince Edward Island. During the last three years the province has made great efforts to attract industries which are small and do not rely on the natural resources of the province. A number of firms have located in both the Charlottetown and Summerside industrial parks.

Revitalization of the city core and waterfront area in Charlottetown is now well underway. The Confederation Court project will begin in the spring of 1978 and end in late 1979, resulting in considerable retail and office expansion in the city core. Total project costs are \$8 million, with total direct new jobs exceeding 100. Although largely privately financed, there is some government investment through the Comprehensive Development Plan.

The Charlottetown waterfront area is now undergoing a \$30-million revitalization. The Charlottetown Area Development Corporation (CADC), owned by the province, city, and surrounding municipalities, is the implementing agency, with funding coming from a host of public- and private-sector sources. Further revitalization of the area will be carried out by the CADC in the 1980s using increasing amounts of private-sector funding. Current and future activity will result in a large amount of construction-related employment, with activity to 1981 generating in excess of 150 permanent new jobs.

NOVA SCOTIA

OVERVIEW

It is estimated that Real Domestic Product in Nova Scotia grew by 2.2 per cent in 1977, compared with 2.9 per cent nationally. Although this represents a closing of the gap in the growth rate between Nova Scotia and the national average since 1976, it may be accounted for mainly by a general slowdown at the national level. Some recovery is forecast for the province next year, however, with both output and employment increasing somewhat more rapidly than in the past two years. The slowdown in the provincial economy in 1977 can be attributed primarily to the agriculture and construction industries, as well as to a weak performance in manufacturing (especially shipbuilding, utilities and the service industry). Over the medium term, economic growth should be closer to the national average than has been the case recently.

Although the wage bill grew more slowly in Nova Scotia in 1977 than in Canada as a whole, personal income (due to the more rapid rise in transfer income) grew faster in the province, 9.8 per cent, than in the nation, 9.5 per cent.

In the short term, the Nova Scotia economy is expected to undergo a moderate recovery from the low levels of economic activity experienced in 1977. Increases in output are expected in the construction, manufacturing, utilities and service industries, and smaller increases are expected in forestry and mining, but the unemployment rate will not likely fall much below 10 per cent in 1978.

The medium-term prospects for the provincial economy are somewhat encouraging, as the aggregate investment outlook is relatively promising. A number of announced major projects, primarily government-initiated, should be well underway and by 1980 their combined effect should help to ease the unemployment situation.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The Nova Scotia population grew by 5.0 per cent during the 1971-76 period, compared with 6.6 per cent for the nation as a whole. The major population growth since 1971 has taken place in the province's central counties, although a few of the more geographically extreme counties showed surprisingly large percentage increases.

Much of the growth has occurred outside the urban centres, with a clear rise in the percentage of the population living in rural areas to 44.2 per cent in 1976 from 42.0 per cent in 1971. Factors supporting such a shift have been the reversal, since 1971, of substantial out-migration from the province to a net in-migration estimated at 1 400 persons per year, lower property taxes, and better highway access from rural residential areas to urban employment.

Labour Markets

Over the past two years, job creation has stagnated in Nova Scotia, with the level of employment remaining constant between 1975 and 1976 and increasing by only 0.9 per cent in 1977. During the same period, however, the labour force increased by approximately 13 000 persons. Consequently, the unemployment rate has risen from 7.8 per cent in 1975 (only 0.9 percentage points above the Canadian average) to an estimated 10.8 per cent in 1977 (over 2.5 percentage points above the national rate).

In parts of the province, unemployment reached very high levels. In northern Nova Scotia, for example, the average for the first ten months of 1977 was 14.2 per cent, and in Cape Breton, 14.8 per cent.

Investment Climate

Institutions and governments have always accounted for a sizeable portion of capital investment in the Province of Nova Scotia. Since 1961 their share of total investment has never dropped below 20 per cent. In the early 1970s, however, there were signs of a decrease in the dependence on these categories. But, following the 1974 recession, the climate for private investment weakened considerably. Manufacturing capital investment declined in 1975 and 1976 and only began to show signs of improvement again in 1977. In 1977, the overall investment climate in Nova Scotia was still cautious in the private sector. An overall turnaround in investment is expected to increase in 1978. It has primarily been, except perhaps in 1975, the growth in public-sector and utility investment that has allowed Nova Scotia capital expenditures to increase at about the Canadian rate.

Sectoral Review

- The agricultural industry appeared weak in 1977, compared with the above-average performance of 1976. In fact, overall output in 1977 declined in real terms compared to the previous year.
- The forestry and mining industries enjoyed a relatively buoyant performance in 1977. Output in the forestry industry is up in 1977, even after allowing for the artificially low levels of output in 1976 caused by a protracted strike. Similarly, output in the mining industry increased by approximately 6 per cent over 1976, largely due to increases in the production of coal and gypsum.
- The construction industry suffered real losses in 1977, due mainly to a decline of 25 per cent in housing starts. Non-residential construction, on the other hand, grew faster in Nova Scotia in 1977 than in Canada as a whole.
- The manufacturing sector as a whole was sluggish during 1977, with only modest real growth in the value of manufacturing shipments. Much of the growth in shipments may be attributed to the recovery of the pulp and paper mills, but moderate increases were also achieved in food and beverage processing, metal fabricating and petroleum refining. The transportation equipment industries, however, suffered a decline of almost 40 per cent in the value of shipments due to weak markets in the shipbuilding and railroad-car-works industries.
- Output in both the service industries and utilities grew slowly in 1977 in comparison with 1976. Growth in 1977 is expected to have been below the national average but an improvement in both industries is expected in 1978. The tourist industry strengthened somewhat in 1977. The World Fishing Exhibition and the devaluation of the Canadian dollar were factors attracting tourists to the area.

Sub-Provincial Circumstances

As in the past, Halifax County and the central-corridor area tended to have economic activity and unemployment rates closer to the national average than did the rest of the province. The prospects for the next few years also point to the continuation of more rapid growth in these areas than elsewhere in the province, not only in terms of absolute growth but also in terms of economic diversification.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The manufacturing sector is expected to produce a mixed performance over the medium term. The shipbuilding industry will experience difficulties and require adjustments. By January 1978, Halifax shipyards will have laid off 900 workers. The medium-term prospects for the Hawker Siddeley rail-car plant

at Trenton are more optimistic with the announcement of a \$40- to 45-million Venezuelan rail-car contract. The Michelin Tire plants located in the province continue to provide a stable source of employment and income. An expansion has just been completed that will bring the work force up to approximately 3 000 from the 1 000 initial employment of 1971, making it the largest private employer in the province. The Sydney Steel Corporation will remain in a precarious situation over the medium term. The recent announcement of a strong possibility of a \$45-million contract for rails manufacture as its share of the Venezuelan railroad project, and an injection of some \$19.5 million, primarily for capital and equipment, by the federal and provincial governments, should stabilize the work force over the medium term. Overall, manufacturing employment is expected to increase by about 650 to 700 employees per year over the next few years.

In the non-residential construction industry, specific projects like the \$100-million C.F.B. dockyard modernization, the new \$60-million container port, a new strip mine for coal, and the new Home Hardware distribution centre in Debert, will certainly have a positive effect on employment.

The agricultural and forestry sectors will continue to exhibit only modest growth in the medium term. The DREE/Nova Scotia subsidiary agreements are anticipated to involve some \$67.3 million over the next five years to create efficient production units, reduce the province's dependence on food imports and to encourage wood-fibre production in the forest industry in the long term, thereby contributing to the stabilization of employment in these sectors.

The fisheries sector has moderate long-term growth potential with the establishment of the 200-mile limit but no large-scale, medium-term growth prospects are anticipated. Stocks are not expected to fully recover before 1985; however, some investment in expansion and fleet modernization may begin prior to this date.

In 1974 the mining industry began to reverse its downward trend, as evidenced by the 90 per cent increase in coal production from 1974-76. The Cape Breton Development Corporation is expected, in the intermediate future, to have profitable coal operations for the first time since its establishment in 1967. Other mines such as the Stellarton open-pit mine, are scheduled to open in 1978. The gypsum market has improved as a result of the increased activity in the United States housing market.

Moderate growth in Nova Scotia's tourist industry is expected to continue in the medium term, with improvements in the physical facilities and attractions assisted by the DREE/Nova Scotia tourism subsidiary agreement, which will involve an estimated \$13.7 million over the next five years.

Output in the utilities sector is expected to increase by approximately 15 per cent in 1978 as the first of two installations of the Wreck Cove hydro project will come on-stream early in the year. Nova Scotia presently has the second highest electricity costs in the nation. Some convergence to the national average is expected in the medium term as the

province moves away from its dependence on imported oil and increases its use of Nova Scotia coal for thermal generation. In the medium term, however, energy costs are expected to remain a serious constraint on development in the province.

Presently-identified large-scale development initiatives, such as the Cansteel project for Cape Breton and the "Gateway" concept for the Halifax-Dartmouth metro area, are not expected to be realized in the medium term, although both remain potentially viable in the future.

NEW BRUNSWICK

OVERVIEW

In the past two years, the growth of the New Brunswick economy has been below the average for Canada. Employment grew by 1.3 per cent in 1976, compared with 2.2 per cent for Canada, and output grew by 3.7 per cent, compared with a little less than 5 per cent nationally. No employment growth is expected for 1977, while an increase for Canada of approximately 2 per cent is anticipated. In 1978, economic activity in the province should accelerate with both output and employment growing closer to, but below, the national rate.

Economic growth has slowed significantly in New Brunswick compared with the 1971-75 period when real output and employment growth generally exceeded that for Canada. The progress made in the first half of the 1970s towards reducing income disparities between New Brunswick and the nation has not, however, been sustained over the recent period of slow growth. Earned income per capita, which rose over the 1971-75 period to reach 71 per cent of the Canadian average, has fallen back to approximately the 1971 level of 68 per cent.

Currently the major sources of output growth in the provincial economy are in the utilities sector and in mining. Primarily as a result of the lack of employment growth, consumer spending and residential construction are running below 1976 levels in real terms.

Capital investment has declined slightly in real terms since 1975, but remains historically high as a result of investment in utilities. New capital investment in manufacturing, however, has declined from its peak in 1975.

Over the medium term, the expected large investments in mining and energy-related projects should aid New Brunswick in achieving national growth rates. The outlook for the province's agriculture, fishing, mining, and related processing and supply industries is for growth rates in excess of recent trends. However, because of the pressures from a rapidly growing labour force, it may well be several years before employment growth exceeds labour-force growth on a sustained basis. In the near term, further increases over the 1977 average unemployment rate of 13.5 per cent might be expected.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Over the 1971-77 period, New Brunswick, with a positive net in-migration, experienced a population growth marginally higher than the Canadian average, a marked turnaround from the historical trend in which the province consistently lost population to the rest of Canada. The recent net in-migration, however, appears to have tapered off since 1975 from a level of 5 000 to 6 000 to about 1 000, possibly due to the deteriorating provincial economic conditions. The age distribution of the population remains slanted towards the pre-labour-force age and those 65 years and over, resulting in a higher dependency ratio than the Canadian average.

Population growth within the province has largely reflected the movement of rural dwellers to employment opportunities in the urban areas of the south. Most of the province's population growth can be traced to the growing urban economies of Saint John, Moncton, and Fredericton, and, in fact, only one rural county, Gloucester, which is outside the influence of these cities, experienced net in-migration over the 1971-76 period.

Labour Market

In general, employment growth has not kept pace with the growth of the labour force during the 1970s and the unemployment rate has more than doubled from 6.2 per cent in 1971 to 13.5 per cent in 1977. Over the 1970-75 period, employment grew at historically high rates but the labour force, swelled by young entrants and in-migration, grew even faster. Although the rate of growth in the labour force has moderated somewhat, the very low rates of employment growth in 1976 and 1977 have resulted in a dramatic increase in unemployment in the past two years.

Investment Climate

Investment in the New Brunswick economy grew steadily over the early 1970s, reaching a peak in 1975. Over the last two years, expenditures have fallen slightly from the 1975 level in real dollar terms and the pattern across sectors has become quite uneven. Utilities have accounted for a disproportionately high share of new capital spending.

The outlook is for significant increases in investment and an improved balance across industrial sectors. Major increases are expected in mining and energy-related activities and lesser advances in the agricultural, trade, services and government and institutional sectors.

In the crucial manufacturing sector, however, the outlook for investment growth is pessimistic. As an example, considerable uncertainty, related in part to the current weakness of national and international economies, now surrounds the possibility of major undertakings in base-metal processing and shipbuilding.

Sectoral Review

- It appears that in recent years the long-term decline in real output and employment in the agricultural sector has been reversed. In 1976, for example, the index of industrial production reached its highest level since 1968.

The medium-term outlook is for significant growth in agriculture and its related sectors. This growth forecast is partially based upon increased production to displace externally produced products on the New Brunswick market. In addition, significant export growth is forecast for such products as seed potatoes, processed potatoes, and fresh and frozen fruits and vegetables.

- The New Brunswick mining industry has recorded increases in real output despite the current recession in the world mining industry. The prime reason for the relative strength of the New Brunswick industry is the fact that lead, a major component of New Brunswick's non-ferrous metal production, is one of the few metals for which demand and price have remained buoyant.

The medium-term outlook for the New Brunswick industry continues to be bright. Although the large expansion at the rich Brunswick Mining and Smelting lead-zinc deposit was recently postponed for one year because of poor markets, the prospect is for increased output and employment with strengthened world markets.

The outlook for the potash sector is very good. The construction of one major mine was announced earlier this year and another mine may well be announced before the end of 1978.

- Output growth in manufacturing has generally outpaced the Canada average since 1971. The strength has come primarily from the traditional resource-based sectors of pulp, newsprint, lumber and food products.

The weak domestic and international conditions of the 1976-77 period have resulted in the loss of most of the gains in non-resource-based manufacturing made over the 1971-75 period. Closures and layoffs have resulted in a net decline of 2 000 manufacturing jobs from the 1975 level.

The medium-term outlook is mixed. Because of resource limitations, little significant growth is expected in the important forest products industry. This industry accounts for more than one-quarter of the manufacturing jobs. The prospects are somewhat brighter for growth in the processing of agricultural and fish products. With a sustained recovery in world markets, there is potential for increased smelting of lead and zinc.

Sub-Provincial Circumstances

There is a well-established trend for the bulk of provincial economic growth to take place in the southern urbanized regions. Over the 1971-76 period, the disparities in income and employment levels between the northern rural regions and the southern urban regions widened quite dramatically. This has occurred in conjunction with the fairly significant migration to the urban regions of the province noted earlier.

In the context of the weak economic performance of 1977, the economies of the rural regions have been relatively strong. However, with a resumption of stronger economic growth, there may well be a further widening of disparities between northern and southern regions and continued migration to urban areas.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

There is an opportunity to significantly increase the production and processing of certain agricultural products where New Brunswick possesses a comparative advantage due to climate and land suitability. The constraints to this development relate to inadequate distribution facilities, particularly for potatoes, a deficient marketing and product quality-control effort, and a low level of productive efficiency. For several products, the absence of processing capability severely constrains attainment of potential production levels. The establishment of the needed facilities represents a significant opportunity in itself.

The New Brunswick fishing and fish-processing industry possesses modern on-land processing facilities and a plentiful labour supply. Opportunities exist to increase output and employment through the increased production of shellfish, certain currently under-utilized species and groundfish (given a rebuilding of stocks). In addition, there are opportunities to reduce the seasonality of existing production. The fundamental constraint facing the industry is the extreme seasonality of operations. In addition, the fleet is somewhat antiquated and lacks ice-breakers and freezer trawlers. Marketing and distribution also need to be improved.

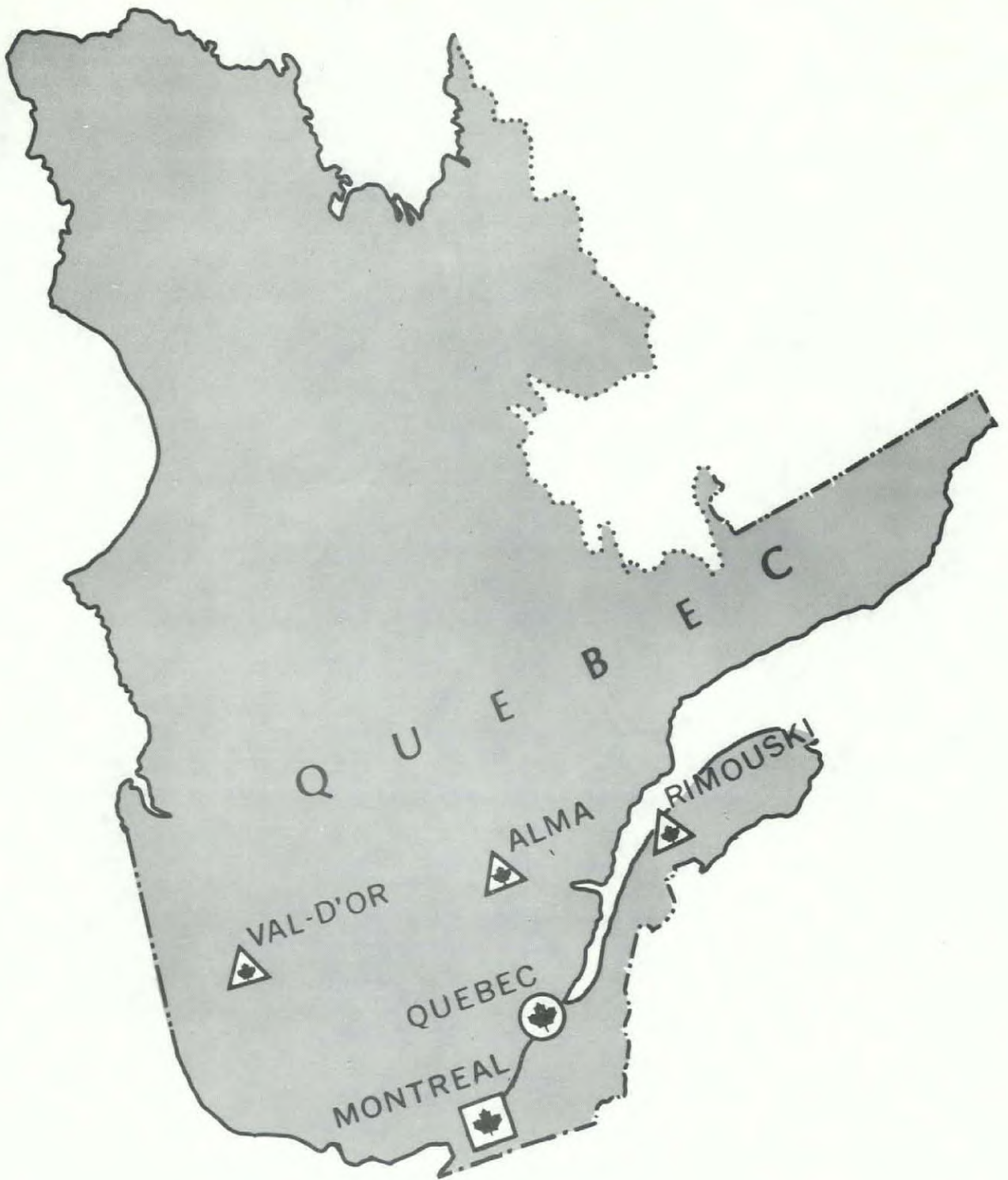
In forestry and forest products, the provincial industry has low wood costs relative to the eastern Canadian average, due partly to the proximity to the northeastern United States market. The annual allowable cut, however, is now almost fully utilized. But there are opportunities in logging to increase productivity through accelerated mechanization and labour training. There is also an opportunity to increase the annual allowable cut from New Brunswick forests over the longer term through intensive forest management. Opportunities in pulp and paper, given appropriate market developments, relate to the need to modernize and rationalize the processing plants to improve efficiency and allow a better use of the available resource.

In the lumber sector, opportunities exist to improve efficiency through improved small-log-processing techniques and to develop products which utilize the smaller logs.

New Brunswick possesses rich and extensive deposits of base metals, potash and peat moss. Furthermore, most mineral deposits have the advantage of proximity to tidewater. There is an opportunity to increase the mining and processing of lead and zinc. There is also an opportunity to increase the mining and processing of the peat-moss resource. In particular, peat moss has potential as a feedstock for power generation.

The major constraint for peat moss is a lack of detailed knowledge as to the size and quality of the resource, while the major constraints in base metals are the currently depressed market and the poor liquidity position of producers.

The province possesses the advantage of deep-water ports and of a strategic location between Europe and the United States. There is an opportunity to significantly increase port and port-related activities at Saint John. This however, will require investment to upgrade inadequate facilities for cargo handling (grain and forest products and cold storage). The prospects facing the shipbuilding sector are fairly bright and are related to the construction of ice breakers for use in the Arctic, liquified natural gas (LNG) carriers, and increased rebuilding and repair activity. The major constraints here are the inadequate size of existing facilities and the lack of cost competitiveness of Canadian shipyards in world terms.



- ☐ REGIONAL OFFICE
- ⊙ PROVINCIAL OFFICE
- △ BRANCH OFFICE

QUEBEC REGION

OVERVIEW

Since the third quarter of 1976, economic growth in Quebec has slowed considerably and the unemployment rate has risen to 10.3 per cent (1977 average), the highest rate since the war. Besides the difficult economic situation which is now affecting both Quebec and the rest of Canada, certain emerging long-term trends are particularly disturbing in the case of Quebec. Except for periods prior to Expo 67 and the Olympic Games, the growth of economic activity in the province since the early 1960s has generally been lower than the national average, and as a result, Quebec's relative position has deteriorated.

The economic slump has been felt in most sectors in Quebec, but particularly in manufacturing, where Quebec's share of Canadian investment has dropped and where investment has been insufficient to modernize the industrial structure, long characterized by a concentration in traditional activities. This sluggishness in the province's economy has meant that the job creation rate has remained well below the national average and is insufficient to absorb the growth in the labour force. Moreover, the growth rate of the provincial population has dropped substantially; consequently Quebec's share of the Canadian population has declined steadily since the mid-sixties. While the relative position of some parts of the province has improved, Quebec must still contend with serious regional inequalities, particularly in unemployment and per capita income. Furthermore, the Montreal area is less able than it was in the past to be the driving force behind the province's economy and to maintain its relative position in the North American urban hierarchy.

Over the next few years, Quebec will continue to be plagued by particularly high unemployment rates. The past trends and the current circumstances suggest the possibility of a decrease in the province's share of Canada's population, production and employment over the medium term. In particular, a reduction in the Quebec share of total Canadian manufacturing output can be expected. Strengthening and modernizing the manufacturing sector and increasing the role of Montreal in a number of sectors appears to be essential to the long-term improvement of Quebec's economic situation.

Quebec has a number of comparative advantages on which to base the development of its economy over the medium term despite certain limits which are imposed by its industrial structure. The province has relatively abundant natural resources which are, however, largely exported in an unprocessed state. The possibility of increasing the extent of processing of these resources offers development opportunities for the steel industry as well as for producers of asbestos and frozen and quick-frozen food products. The availability of hydro-electric energy at a very competitive price provides Quebec, in the present energy context, with an important advantage on which to base the development of highly productive manufacturing industries, notably those in the electro-metallurgical and electro-chemical sectors. The Montreal urban area is another attractive factor because of both its size and the diversity of its service industries. This environment would favour the development of such tertiary sector activities as transportation, research, and commercial and financial services. Finally, Quebec is Canada's second most important market, after Ontario, and possesses a labour force that is becoming more and more well-qualified. It is also important to recognize the existing industrial base in the province and Quebec's relatively strong technical competence in such sectors as transportation equipment, communication devices, electrical equipment, and pharmaceutical products.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Between 1976 and 1977, the population of Quebec increased by 48 700 to reach a total of 6 283 100. Since the mid-1960s, the growth in the province's population has been low and its share of the Canadian total has been declining constantly; for example, from 29 per cent in 1963 to 27 per cent in 1977.

Since 1969, Quebec has been the only province to consistently record an annual population growth rate of less than 1 per cent. This low rate of demographic growth is explained by the steady drop in the birth rate since 1961 and by extensive out-migration, particularly between 1970 and 1973 as well as more recently. The lack of demographic growth may result in a gradual shrinking of Quebec's domestic market, possibly affecting the investment decisions of businesses.

Labour Markets

The recent deterioration of economic conditions in Quebec has particularly aggravated problems related to labour market conditions. In the last quarter the unemployment rate averaged well above 11 per cent. The youngest age groups experienced the highest unemployment rates and Montreal has been the area hardest hit by the economic slowdown. There, the unemployment rate rose from 6.5 per cent in 1975 to 9.4 per cent in 1977 and the number of jobless increased by 53 000.

From 1966 to 1977, the labour force grew more slowly in Quebec (average annual rate of 2.6 per cent) than in Ontario (3.4 per cent) or in Canada as a whole (3.2 per cent). Employment also rose more slowly in Quebec (1.9 per cent) than in Ontario (3.0 per cent) or in the country as a whole (2.7 per cent), and the employment growth gap was greater than that of the labour force. Because of the very low net job creation rate, and with a participation rate which remained lower than that of Ontario in spite of its increase, Quebec's unemployment rate has remained above the level of Ontario and of Canada as a whole.

Investment Climate

The investment performance of the Quebec economy was particularly disappointing during the latter half of the 1960s, when the province experienced a marked deterioration in its relative position. With the exception of 1976, however, investment has been improving since the early 1970s. The average annual rate of investment rose approximately 20 per cent between 1971 and 1975 and the growth rate of investment in Quebec was consistently higher than the corresponding rate in Ontario. As a result of this upswing, Quebec's share of total investment in Canada also rose, from 19.2 per cent in 1970 to 24.0 per cent in 1975. Furthermore, the annual investment survey suggests that investment will have risen by approximately 14.3 per cent in 1977 as compared to an increase of 10.5 per cent for Canada and 6.2 per cent for Ontario.

This satisfactory share of total investment is attributable in large part to the start-up of a number of government projects. Until 1975, public and para-public investment accounted for approximately 32 per cent of the total. Since 1975, however, the public sector's contribution has increased, with the proportion now close to 40 per cent, reflecting the relative weakness of private investment in Quebec.

On the other hand, the October 1977 survey of the investment intentions of 300 large Canadian firms suggests a percentage increase in investment of about 5 per cent in Quebec and 6 per cent for Canada between 1977 and 1978. In Quebec, manufacturing investment is forecast to increase by 22.5 per cent (9 per cent for Canada) and non-manufacturing investment by 2.1 per cent (5.6 per cent for Canada).

Sectoral Review

The structure of economic activity in Quebec has changed in much the same way as it has throughout Canada. The industries in the tertiary sector are assuming an ever-increasing importance in the economy, in terms of both production and employment. In 1961, tertiary industries accounted for 52 per cent of all employment in Quebec; in 1976 the proportion had grown to 65 per cent. The growth of the tertiary sector has implied a decline in the relative importance of the primary and secondary sectors in the province.

- Primary activities decreased significantly in relative terms, with the percentage of employment dropping from 11.5 in 1961 to 5.0 in 1976.
- In the agricultural sector, Quebec recorded an 8.0 per cent reduction in net farm income in 1977 following the 19.5 per cent decrease registered in 1976. This situation can be explained by the substantial rise in operating costs.
- The mining industry is going through a difficult period; in the first nine months of 1977, the volume of exports of eight metals, and notably iron and copper, dropped in comparison with the previous year. The low level of world demand and the large stocks of certain metals account for the precarious situation of the industry, although some improvements may be expected if recent explorations are fruitful.
- The forestry industry has experienced a decline in pulpwood production while lumber production has increased. Cutting activities have been affected adversely by the drop in American demand for newsprint but favourably influenced by the buoyant level of construction activity in the United States.
- The relative importance of the secondary sector has also declined, and its share of total employment has dropped from 36.5 per cent in 1961 to 29.9 per cent in 1976. This decline is attributable in large part to difficulties peculiar to the manufacturing sector which from 1961 to 1976 experienced a relatively low rate of growth of production, investments and employment and has thus seen its share of total output substantially reduced both in Quebec (from 26.3 per cent in 1961 to 24.6 per cent in 1976) and in Canada (from 30 per cent in 1961 to 26 per cent in 1976).

This unsatisfactory performance is primarily the result of structural problems caused by the high concentration of Quebec manufacturing in traditional activities, many of which continue to experience difficulties due to the weakening of their competitive position. For example, employment in the textile sector has declined by 25 per cent between 1973 and 1977 (from 40 000 to 30 000 workers), due largely to the growth of imports and the stagnation of the clothing industry (a principal customer). The clothing industry has faced serious structural problems for several years and suffered a marked reduction in employment in 1977. The principal problems in this sector seem to be related to the average size of firms and to the fragmentation of the industry. The footwear industry is another traditional sector in which the decline accelerated between 1974 and 1977. The problems here are similar to those of clothing except for the fact that the major upstream sector, leather tanning, is not particularly well developed in Quebec.

- Activities within the tertiary sector have contributed largely to the growth of the Quebec economy in 1977, during which tertiary activity

grew by 3.9 per cent and created 56 000 new jobs. Despite the relative strength of this sector within the provincial economy, it is nevertheless expanding more and more slowly, due in large part to the growth of Toronto and the gradual displacement of economic activity toward the west. Principally affected by these trends are the activities of transportation, finance, business and research.

Sub-Provincial Circumstances

There are serious and persistent regional inequalities in Quebec, particularly in respect to population, the labour market, and income. The population of metropolitan Montreal has grown more slowly than that of Quebec as a whole. Labour market indicators show that in 1977 the unemployment rate varied from 9.4 per cent in the Montreal economic area to 18.5 per cent in the Lower St. Lawrence/Gaspé region. Also, disposable income per capita in the Lower St. Lawrence/Gaspé region was only 60 per cent of the Montreal area level.

With respect to the sub-provincial distribution of activities, it is significant that more than 70 per cent of Quebec manufacturing employment is concentrated in Montreal. The other Quebec regions generally have an industrial structure which is not highly diversified and manufacturing activities are usually closely related to the exploitation of resources. For example, the Outaouais Region has two-thirds of its manufacturing employment in the wood, furniture, and pulp and paper industries. Finally, many cities in Quebec are dependent for their livelihood on the presence of only one or two firms.

In recent years, the development of Montreal has been cause for concern. A number of indicators have emphasized Montreal's relative decline as compared with other North American urban centres. This decline is all the more disturbing because the Montreal area is the only real development pole in Quebec and its dynamism has a considerable impact on the entire Quebec economy. Also, the growth of Montreal's economy has been even lower than that of the rest of Quebec since the mid-1960s. In 1977, the number of unemployed in Quebec rose by 50 000, of which 41 000 were in the Montreal area, which registered a net loss of 3 000 jobs primarily in traditional manufacturing activities, construction, business and services.

When considering the other regions of Quebec it is important to emphasize the persistence of slow growth in the peripheral regions of the province: Saguenay/Lac Saint-Jean, the Northwest, and the Lower St. Lawrence/Gaspé. The rate of unemployment in these regions taken together was 16.2 per cent in 1977. In the Saguenay/Lac Saint-Jean region, benefits from investment in the pulp and paper and aluminum industries may improve the unemployment situation. The Eastern Townships and Trois-Rivières regions continue to register weak growth because of difficulties in modernizing their industrial structures which are strongly concentrated in traditional industries. There has also been a recent and marked deterioration in the economic condition of the Outaouais region where unemployment increased from 9.2 per cent in 1976 to 11.9 per cent in 1977. The slowdown in construction activity is apparently the principal underlying cause of this situation.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The resource-based and allied industries offer promising medium-term opportunities. There are indications that the province could become more self-sufficient in the agricultural food-products sector, particularly in pork, beef and grain production. However, this can only be done if the land is made more productive by irrigation and is protected from speculation and urban encroachment. The vitality of the agricultural sector is tied to the development of the agricultural products processing industry. Frozen and quick-frozen products in particular hold promise for Quebec.

Quebec also has important reserves of iron ore which, over the next decade, could lead to increasing investment in the exploitation of new deposits as well as significant growth in primary steel production. At present there are virtually no linkages with the processing sector since Quebec converts to steel only about 1 per cent of the ore it produces. This deficit in steel production contributes to a retardation of the development of industries that use steel. However, the construction of a pellet factory at Port Cartier and the expansion of SIDBEC have expanded production capacity and represent an important step toward the complete vertical integration of primary steel-making in Quebec.

Forest industries occupy an important position in the provincial economy and play a key role in the economic structure of several regions. The pulp and paper industry, however, is facing serious problems because its cost structure is higher than that of major competitors. Taking account of the development of market demand, the industry will have to invest large sums for the modernization of equipment. Measures undertaken to improve forest management, together with investments in roads and silviculture, will facilitate access to the resource, optimize its distribution and reduce costs. One new project, among others, that will possibly take shape over the next few years is the establishment of a forest complex, from which Quebec could benefit by the manufacture of particle board.

The transportation equipment industry has definite development potential. Quebec has a relatively strong industrial base in aeronautical and naval construction and in the manufacture of public transportation equipment. Large contracts have recently been awarded to Quebec firms and opportunities for others involving substantial amounts of military equipment could generate a considerable employment spinoff effect. Growth prospects are also promising in the machinery and electrical products industries.

At present, Quebec is heavily dependent on petroleum for its energy. Production at the James Bay complex will increase the quantity of hydro-electric power available at a cost that will remain competitive. However, it would seem that the natural gas distribution network will have to be extended beyond Montreal to allow greater diversification of Quebec's energy resources.

The rate of growth registered by the electro-metallurgical and electro-chemical industries in Quebec should be high in the medium term, as a result of the availability of hydro-electric power at a competitive price.

Quebec is already an important producer of primary aluminum, accounting for 75 per cent of Canadian production. Although a few processing industries have been developed, most aluminum continues to be exported in crude form. Quebec should be in a good position to benefit, over the coming years, from the anticipated rapid development in the manufacture of semi-finished and finished aluminum products.

Montreal's petrochemical complex is of insufficient scale at present to meet world market competition. Substantial investments will be required to enable Quebec to maintain its position in this industry in Canada. The most immediate possibility is an increase in the production of ethylene and the construction of plants for the processing of ethylene by-products to absorb the extra output.

With support from existing airport and harbour infrastructure, Montreal's role in the transportation sector could be consolidated to make that city the hub of freight transport for eastern North America. This infrastructure also provides an important instrument with which to encourage the restructuring of the Montreal area's manufacturing industry and to support the development of service industries in areas related to international commerce. The construction of an international trade centre could enable Montreal to play a greater role in commercial activities.



- ◆ OTTAWA
- ◻ REGIONAL OFFICE
- ⊙ PROVINCIAL OFFICE
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ONTARIO REGION

OVERVIEW

During 1977, real growth in the Ontario economy is estimated to have been approximately 3 per cent, compared with almost 5 per cent in 1976. Capital investment has continued to be relatively sluggish, the uncertainty being maintained somewhat by several key public policy issues. Unemployment increased marginally to 7 per cent as the job creation rate lagged slightly behind labour-force growth. Trouble spots have been identified in the mining, agricultural, construction and public administration sectors. Within manufacturing, the auto-assembly, petroleum and coal products and lumbering industries had a good year while home furnishings and other consumer goods experienced only marginal growth. The steel industry has had two years of stagnant demand and, like the pulp and paper industry, has been operating at only 80 per cent capacity. Consumer spending, which accounts for nearly 55 per cent of the Gross Provincial Product (GPP), is weak with retail sales for Ontario showing only modest gains in the third quarter of the year.

Positive factors affecting the economy during the year have been reduced interest rates, the declining value of the Canadian dollar and the recovery of the United States economy. However, continuing high labour costs, relatively low productivity growth rates, environmental concerns and poor corporate liquidity have combined to dampen economic activity in 1977.

The Ontario economy should experience slow but steady growth during 1978, although no significant improvement is expected in unemployment and inflation. The latter half of the year will likely perform better than the first half with business optimism strengthening, in part due to the impending construction of the Alaska Highway pipeline, improved consumer demand, continued slow recovery of the international economy, and the net benefits of the Canadian dollar devaluation. Overall growth is expected to be approximately 4.5 per cent.

Sectors of strength during 1978 are expected to include the manufacturing, forestry, transportation, communications and utilities industries. The construction industry should also exhibit some growth as capital expenditures are expected to increase somewhat as the business climate is perceived to be improving. The major construction impetus will be in the

private non-residential sector. Due to the province's continued commitment to spending restraints in the coming year, public investment will continue to be low, and thereby will slow growth in the construction trade. The mining and agricultural industries in Ontario are expected to have a sluggish year, while the service sector is expected to undergo some recovery from its 1977 slowdown, with growth predicted to match the national rate.

The Ontario economy has traditionally played a dominant role within the Canadian economy, and this situation is expected to continue in the medium term. A number of basic opportunities for development exist although some important constraints will reduce their impact.

The existence of a skilled labour force, a wide range of manufacturing and service industries, the proximity of markets in southern Ontario, western Quebec and the northeastern United States, and a developed industrial infrastructure are expected to continue to provide Ontario with strong opportunities for sustained economic growth. In addition, Toronto's increasing role as financial centre of the country, the existence of diversified entrepreneurial skills, and a large range of social facilities provide further opportunities for economic growth, although in all of these instances a distinction has to be made between northern and southern Ontario, as most of the advantages are found only in the latter. A sizeable agricultural, raw-material and forest base provide further opportunities.

A long-term decline in the growth of the Ontario labour force is predicted, given the continuing decline in the birth rate and lower rates of immigration. This will be an important factor in assisting in the reduction of unemployment levels and in encouraging capital investment and higher labour productivity.

The decline in the value of the Canadian dollar is assisting Ontario's manufacturing industry in restoring its competitive position with the United States and other major trading partners. The Ontario pulp and paper industry, in particular, is expected to gain, in the medium term, from the devaluation. However, the costs of imported raw material have become correspondingly more expensive.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Ontario's population was estimated to be 8.4 million in 1977. This figure indicated a continuing slow-down in the growth rate, a trend which started in 1973. The causes of this reduced growth are a combination of continued low birth rates and decreasing immigration.

Long-established trends in the changing age and sex characteristics of the population have continued. There is a decreasing percentage of population in the 0-14 age bracket, while the 20-39 age group has been expanding, which has important implications for the growth of future labour

supply in Ontario. Other characteristics include an increasing female and elderly proportion of the population, and further urban concentration. The increasing concentration factor has meant smaller relative populations in rural and northern Ontario.

Labour Markets

During 1977, the Ontario labour force averaged more than 4 million participants, of which 3.8 million were employed. The annual growth rates of the labour force and employment were approximately 3 per cent and 2 per cent respectively. On the whole, it appears that the large discrepancies that have existed in the recent past between these two growth rates, and which have created the high levels of unemployment, are slowly being reduced.

The provincial unemployment rate fluctuated between 6.2 per cent and 7.4 per cent during 1977, a significant rise over the previous year's range of 5.7 per cent to 6.5 per cent. The unemployment rate among males increased from 5.1 per cent in 1976 to 5.9 per cent in 1977, while that for females jumped from 7.8 per cent to 8.6 per cent. The highest unemployment rate by far is in the 15-24 age group, at 13.0 per cent for the year. Participation rates remained relatively static for males throughout the year, while female rates showed an increase.

Employment in agriculture, other primary industries, transportation, communication, and utilities, as well as manufacturing, all exhibited negative or no growth. The construction, trade, service, public administration and finance, insurance and real estate industries showed positive performances.

The two most serious areas of unemployment in the province continue to be in those economic regions centered around Sudbury and Peterborough. Unemployment rates for 1977 were 9.9 per cent and 8.1 per cent, respectively, and their participation rates were below the provincial and national averages. Additionally, the metropolitan areas of Ottawa-Hull and St. Catharines-Niagara had unemployment rates of 8.9 per cent and 9.4 per cent respectively in November 1977, and represented specific locations of labour concern.

The outlook for Ontario's unemployment in the short run is not very bright. Indications suggest even higher unemployment rates than those experienced during the fall of 1977, with the seasonally-adjusted average climbing above 7 per cent. However, with stronger economic performance expected in the second half of 1978, it is anticipated that the unemployment rate may slowly improve as the year progresses.

Investment Climate

Capital investment in Ontario in 1977 showed little or no growth in real terms, mainly because of uncertainty in the private sector over inflation, international market conditions and under-utilization of industrial capacity.

However, the devaluation in the Canadian dollar, lower interest rates, improving profits, more reasonable labour costs and some government stimulation of the economy are all expected to have positive implications.

Construction activity in the residential sector showed no real growth in 1977 with the value of work performed estimated at \$4.1 billion. However, housing repairs did show a significant growth since 1976, while new housing construction lagged. Output in non-residential building construction had an absolute decline in 1977 of \$87.6 million over 1976. The outlook for 1978 for the construction sector as a whole is for positive growth as a reflection of improving business conditions. Investment in engineering construction is expected to improve, although gains should be moderate because of continued public-sector spending restraints.

Capital expenditures on machinery and equipment experienced small growth in 1977. The transportation equipment and primary metal industries, in particular, had very good years. The outlook for the future is for continued, but slow growth in this type of investment.

Sectoral Review

- Farm cash receipts were \$2.3 billion over the first ten months of 1977, an increase of \$50 million or 2.2 per cent over the same period of 1976. However, the percentage change in real terms represents a decline. This can be attributed to a poor year in both livestock and field crops. The outlook for 1978 sees no great improvement as farm prices are expected to remain stable while operating costs increase.
- The forest industries experienced a mixed performance in 1977, but did obtain a moderate growth level. Softwood lumber sold extremely well, largely as a result of the heavy housing construction in the U.S. Hardwood lumber sales, however, suffered because of depressed conditions in the furniture industry. The pulp and paper industry experienced slow growth in 1977 which resulted largely from a loss of market share arising from the prolonged strike in 1976. Despite the recent decline in the value of the Canadian dollar, forecasts for the immediate future of the forestry industry remain guarded because of above average inventories and the current 80 per cent capacity utilization factor in the pulp and paper industry.
- Mining had a fairly slow year in 1977 due to weak international demand and new supplies coming on-stream. Nickel, copper, and zinc, in particular, suffered from these conditions. Of the major minerals, only uranium, lead, silver and gold performed well. Growth in 1977 was in the neighbourhood of 4 per cent but in 1978 some declines are anticipated due to production cuts as a result of this year's build-up of inventories.
- During 1977, manufacturing was one of the stronger sectors in the economy. Estimated value of shipments in current dollars was up 9.9

per cent for the first eight months over the comparable period in 1976. Rubber and plastic products, paper and allied industries, petroleum and coal products, chemical and chemical products and the transportation-equipment industry have been strong. The latter industry, however, is currently losing some of its growth momentum. Furniture and fixtures, primary metal, electrical products and non-metallic products, while showing marginal growth in absolute terms, experienced some decline in real terms and along with tobacco and leather products, were the slow-growth areas within the sector.

- For 1978, manufacturing is expected to grow at 4.5 per cent, compared with 3.0 per cent in 1977. Strong performances are anticipated in pulp and newsprint, chemical and plastic products, primary metals, metal fabricating and transportation. The devaluation of the Canadian dollar should assist in creating an improved international competitive position, as well as making domestic products more attractive to Canadian consumers. The Alaska Highway pipeline construction should make its initial impact felt on the Ontario economy by the third and fourth quarters. In the interim, strengthening consumer demand should continue to keep the manufacturing sector buoyant.
- The forecast for the construction industry for 1978 indicates modest improvement. Housing starts were down in 1977 due to a large inventory of unsold houses but activity is expected to pick up in 1978. Non-residential construction is expected to show some advance, particularly towards the end of the year. Engineering construction might also show some marginal growth due to a backlog of capital projects building up in the public sector, which, despite spending restraints, must be dealt with.
- The transportation, communication and utility sector grew by about 5 per cent in 1977. While future development looks bright, there are still some immediate problems related to the need to raise the large amounts of capital investment required. This is most evident in the continued restraints placed on the expansion plans of Ontario Hydro. Nevertheless, this sector continues to be one of the leading growth areas in Ontario's economy. Real growth for 1978 is expected in the 4 to 5 per cent range.
- Retail sales were up 8.9 per cent in 1977, an increase which exceeds the national average. The largest increases can be attributed to spending on consumer durables, especially on automobiles, and semi-durable items. Sales of non-durable items were very slow.
- The finance, insurance and real estate sector has shown above-average performance through 1977 within the Ontario economy. Expectations for 1978 are for improved performance with growth approximating that expected for GPP. The continuation of low interest rates should encourage some consumer borrowing and real estate transactions. Large business expenditures on new projects, however, may remain weak as

business confidence has made only slow improvements, and this in turn will affect the demand for investment financing in the short run.

- The service sector grew by approximately 3 per cent in 1977. Restricted government spending in health, education and community services, as part of an Ontario government restraint policy, has been a major factor in the slower growth of this sector. In the education field, declining birth rates and school board budget ceilings have restricted expansion. Tourism has been affected by high costs and a poor competitive position. Services to business management also suffered due to the deferral or cancellation of several major construction projects in the utilities and manufacturing industries. The service sector is expected to improve its performance in 1978, although spending restraints in the public sector and continued low-key business activity will continue to dampen potential.

Sub-Provincial Circumstances

Some preliminary indications of improved performances have recently been noted in a number of important industries located in northern Ontario. Buoyed by a rise in United States housing starts, lumber, plywood and chipboard production schedules were firming. Pulp and paper inventories were approaching more normal levels and demand was reviving in the American market. Demand and prices for lead and uranium were very strong, while the price of gold has strengthened.

However, recent layoffs in the nickel industry and copper industry have created scattered pockets of severe unemployment. As in the rest of the province, the construction industry was depressed in 1977 due to the low level of capital spending. Even if the northern economy does achieve better performances in its key industries, employment gains are expected to lag two or three quarters behind the general economic improvement due to current slack capacity available.

The principal areas of growth currently are Elliot Lake, Timmins and Thunder Bay. Industrially, no sector is outperforming the average except for transportation equipment, manufacturing and utilities. The forestry and mining sectors have the greatest scope for improvement at the present time, and will continue to have this status for at least the next twelve months.

The current unemployment situation in eastern Ontario is relatively serious, with the percentage of unemployed exceeding the provincial average. The National Capital Region has been particularly hard hit by a lack of new jobs, due to federal government efforts to stabilize the growth of its work force and its policy of decentralization. Other problem areas include Napanee, Pembroke, Gananoque and Picton.

The outlook for eastern Ontario, in the short run, is for a continuation of the slow improvement which occurred in 1977. One of the main constraints on future growth will continue to be excess capacity and

underemployment within the manufacturing sector, although the food-and-beverage and metal-fabricating industries are expected to exhibit some strong growth. Other important industries in eastern Ontario, specifically the textiles and electrical products industries, are expected to stabilize their performances after particularly poor records in 1977. The agricultural picture looks somewhat brighter with improving prices in the beef and dairy industries. The provincial government's policy of developing the eastern part of Ontario has meant new opportunities for the region with OHIP moving to Kingston and the Transit Test Centre being located in Brockville.

The prospects for the southern Ontario economy have improved considerably during 1977, primarily as a result of the reasons outlined above in the "Overview". The chemical and plastics industries are expected to have a good year due to the recent completion of the large capital projects in the petrochemical complex in Sarnia. The construction of the Alaska Highway pipeline, in turn, will have a significant impact on the primary metals industry, particularly in the Hamilton area. With increased consumer spending the manufacturing of durable items should also improve. The Toronto-based finance, insurance and real estate industry will experience another strong year in 1978, while the service sector should also make some gains, particularly in the large urban centres of southern Ontario.

Despite these signs of optimism, unemployment will not be significantly reduced, capital investment will grow only marginally faster (which augurs another bad year for the construction industry), and the auto-parts industry is expected to continue to be hampered by a trading deficit with the United States. Over-capacity and under-utilization are expected to be further problems. Accordingly, the forecast is for general improvement in southern Ontario but not total recovery as yet.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

Among the well-established development constraints in Ontario are: the relatively small size of the domestic market, which limits scale of production economies; the small scale of industrial enterprises; the development deterrent effect of mining taxation; the low level of industrial research and development; and the branch-plant syndrome. Although many of these constraints also apply to other provinces, they are particularly important in Ontario, given the size of its contribution to the national economy and its concentration in manufacturing activity.

A major constraint, which may be present for several years, is the poor international market situation for raw materials. The impact of this on the major nickel producers in Sudbury is well known. It has also been an important factor in postponing the iron ore mining developments at Bending Lake and Lake St. Joseph and the Reed Paper Company's forest development in northwestern Ontario. In addition, competition from low-cost-ore producing countries, such as Brazil, is also expected to act as a constraint to Ontario mineral developments in the medium term.

Similarly, competition from the manufacturing industries of low-cost producing countries in such sectors as footwear, clothing and electronics is also likely to constrain manufacturing growth. In this context, the forthcoming GATT negotiations, which are expected to lead to lower tariff barriers, will have crucial effects on Ontario's manufacturing industry.

In northern Ontario, the traditional limitations on development, remoteness from markets, long distances between scattered population centres, harsh climate, the poor agricultural land base, and economic and social instability associated with the single-industry communities, which are a characteristic of the region, contrast dramatically with the situation in southern Ontario.

The lack of sufficient indigenous energy supplies in Ontario, particularly coal, oil and natural gas, and the increasing dependence on more costly imported products, will reduce Ontario's traditional advantage of low-cost energy for its industry. More expensive energy will contribute to higher manufacturing costs which will impinge more heavily in northern Ontario than in the south. This factor may lead to a higher concentration of activity in the south in the long run. It may also be an important factor in increasing economic development in western Canada.

The tolls of the St. Lawrence Seaway are to be increased by 110 per cent over the next three years. Higher tolls could be to the detriment of Ontario ports such as Thunder Bay and Toronto but, to the extent that some traffic is diverted from ship to rail, could be to the benefit of Montreal and East Coast ports.

Expansion of nuclear and thermal-generating plants, such as at Darlington, Nanticoke and Marmion Lake (Atikokan) is expected to provide considerable opportunities for the construction and nuclear and electrical engineering industries. Similarly, the construction of the Atikokan coal-generating station will assist in relieving unemployment levels in an area of declining mining activity. The Nanticoke development, on the north shore of Lake Erie, is to be associated with a Texaco oil refinery and the construction of a new town (Townsend); this could form an important catalyst for development in this part of southern Ontario. In northern Ontario, the development of the Onakawana lignite deposits is likely to have an important impact on the local economy and may spur further exploration in that area.

The construction of new pipelines in the western and Arctic regions is expected to benefit Ontario steel producers such as STELCO. This is an important opportunity given the current world surplus of steel-making capacity.

Uranium mining activity in the Elliot Lake and Bancroft areas is likely to continue in the medium term and will thereby provide important opportunities for development in those areas.

The Ontario Royal Commission on the Northern Environment and the Ontario cabinet committee on the economic future of Ontario mining communities, together with the recently announced \$2.5-million mining-exploration program for northern Ontario, are expected to provide some long-term directions for development opportunities in the north.

In southern Ontario, the petrochemical industry, centred in Sarnia, is continuing to develop on a world-scale basis and will provide Ontario with an important industrial asset in the medium- and long-term future.



- ☐ REGIONAL OFFICE
- ⊙ PROVINCIAL OFFICE
- ⚠ BRANCH OFFICE

WESTERN REGION

OVERVIEW

The 1977 regional product in western Canada was approximately \$60 billion, up 9.3 per cent in real terms from 1975. At 28.3 per cent of the Canadian total, the western regional product was, for the first time, slightly greater than that of Quebec and the Atlantic provinces taken together. However, despite its rapid rate of growth, the economy of western Canada has seen few structural changes, although future development opportunities might arise for import replacement of selected commodities. Primary production and primary processing account for 53 per cent of the total value added in the commodity-producing industries, well above the 28 per cent for Canada as a whole.

The Western Region benefited greatly from the resource boom of the early 1970s. However, during 1976 and early 1977 a number of factors contributed to a lower level of business confidence. There was a sharp fall in the prices of those agricultural, forestry and mineral products not directly affected by the rapid rise in energy costs. Even in the energy field confusion over royalty taxation added to business uncertainties. Nevertheless, by the end of 1977 the decline in value of the Canadian dollar, a revival in the British Columbia lumber industry, recovery of potash production in Saskatchewan and the positive effects of the pipeline decision, combined to provide some basis for optimism about the medium-term state of the economies of the three most western provinces. Only in Manitoba, where announced reductions in mining employment are combined with a poor manufacturing performance and lower farm incomes, is there cause for continued pessimism about medium-term prospects.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Since 1961 the combined population of Alberta and British Columbia has grown from 3 million to 4.4 million to reach 18.9 per cent of Canada's total population in 1977. Manitoba's population grew from 922 000 in 1961 to just over a million in 1977. However, as a proportion of Canada it has declined. The population of Saskatchewan dropped from a high of 960 000 in 1968 to a low of just under 900 000 in 1974, but had recovered to 936 000 by 1977, a level

similar to that of the early 1960s. As a result of these differing trends, the west's share of the national population has increased by only 1 percentage point in two decades, from 26 per cent in 1957 to 27 per cent in 1977.

In the medium term these trends appear likely to continue. Alberta will continue to need substantial in-migration for the pipeline and other major projects. It seems unlikely that Saskatchewan and Manitoba will provide the numbers they have in the past. Their agricultural labour force seems to be stabilizing and the rapid labour-force growth, fed by the baby boom, is passing. Consequently, in-migration for other regions of the country could become relatively more important than the already prevailing trends.

Winnipeg's long history of supremacy on the prairies is being overtaken by growth in the Edmonton/Calgary corridor. Winnipeg, with a 1976 census population of 571 000, had an increase of only 3.8 per cent from 1971. However, Edmonton with 543 000 and Calgary with 458 000 now have a combined population of over a million, an increase of 11.3 per cent from the 1971 census. In 1976 the populations of Regina and Saskatoon were 149 000 and 132 000 respectively, an increase of 5.8 per cent and 4.6 per cent. Vancouver's 1976 population of 1 136 000 was only 4.9 per cent above 1971, while that of Victoria increased by 8.5 per cent to 212 000.

Between 1971 and 1976 a significant trend was the growth of population in regional centres with populations of between 15 000 and 100 000. In British Columbia the growth of these regional centres reduced the metropolitan dominance of Victoria and Vancouver from 58.5 per cent of the provincial total in 1971 to 56.0 per cent in 1976, thus shifting the provincial population centre of gravity inland. On the prairies, these regional centres increased their share of total population to 7.5 per cent. However, this was at the expense of smaller towns with less than 5 000 people, many of which showed absolute declines. Prairie metropolitan areas increased their share to one-half of the population by 1976.

Indian and Métis population growth continued to be well above national averages. It is estimated there are approximately 200 000 Indians now resident in western Canada. An increasing proportion, particularly in the 15-30 age group, are choosing to live in the metropolitan areas.

Labour Market

In line with population trends, the combined labour force of Alberta and British Columbia reached 2 million by 1977, a growth of almost 51 per cent since 1971, well above the Canadian figure of 24 per cent. In Saskatchewan and Manitoba over the same period, labour-force growth was more moderate at only 21 per cent. However, employment growth in British Columbia was concentrated in the period ending 1974. Since then employment in British Columbia has grown by only 7 per cent. With a growth in the labour force of 10 per cent during the same period, unemployment increased to 8.5 per cent, the highest rate west of Quebec. In Alberta employment growth has continued high at almost 6 per cent annually from 1974 to 1977 and unemployment remains

well below the national level. Over the medium term, unemployment should remain low in the west because of pipeline and other energy-related construction.

Average weekly wages and salaries at \$297 in British Columbia and \$272 in Alberta are above the national average of \$258. Manitoba at \$235 and Saskatchewan at \$244 are below the national level.

Investment Climate

Between 1971 and 1977 capital investment in western Canada increased from \$8.4 billion to \$21 billion and rose from just under 33 per cent to some 36 per cent of the Canadian total, or 9 percentage points higher than the west's share of the Canadian population. The relatively large share of total investment arises largely from the area's predominance in the primary sector, with almost \$5 billion or over 62 per cent of the Canadian total being invested in 1977. However, investment in western manufacturing has fluctuated around only 19 per cent of the Canadian total between 1971 and 1977. Total per capita investment is over 33 per cent higher in the west than in Canada as a whole, while per capita manufacturing investment in the west is 33 per cent below the national figure. In the remaining sectors it is 27 per cent above the Canadian average.

The prospect of new major projects in the energy field is likely to result in a continuation of this pattern. The Alaska Highway pipeline has already been announced, as have major investments in heavy oil in both Alberta and Saskatchewan and prospects for further development of the tar sands in Alberta. Manufacturing investment in materials required for the energy fields such as pipelines, drill pipe and other oil-field- and construction-related equipment is likely to increase during the medium term. Furthermore, with anticipated greater activity in the financial and service fields it is expected that the already noticeable growth of financial intermediaries and other service industries in western Canada would increase with Calgary, Edmonton and Vancouver being the main beneficiaries.

Sectoral Review

- The main structure of western Canada has had relatively few changes since 1961. Primary production and primary processing currently account for 52.6 per cent of the total value added in the commodity-producing industries, well above the 28.1 per cent for Canada as a whole. Although the west has 36 per cent of total capital investment in Canada and 27 per cent of Canada's population, it accounted for only 17 per cent of total employment and 17 per cent of Canada's net value added in manufacturing. Employment in prairie agriculture has dropped from almost 250 000 in 1961 to 217 000 in 1977, but it is still the largest single employer of labour on the prairies and second only to the mining sector in its contribution to the Real Domestic Product of the prairie provinces. With almost 30 per cent of the real output of British Columbia arising from the forest

and forest-related industries and a further 11.2 per cent from mining, the province still remains heavily dependent upon the exploitation of its primary resources.

- The grain of the prairies and the lumber and pulp and paper of British Columbia are largely sold on world markets. In general, the west shared more than proportionately in the commodity boom of the early 1970s and relatively high grain prices helped to continue the boom on the prairies through 1975, long after it had generally ended in the rest of Canada. However, farm incomes dropped by 11 per cent between 1975 and 1976, a further 21 per cent from 1976 to 1977, and are projected to fall a further 6 per cent in 1978.
- The British Columbia forest industry has perhaps suffered less than the rest of the Canadian forest-products industry because of its greater dependence on lumber and the relatively high level of residential construction in the United States. However the pulp and paper side of the business experienced depressed world markets.
- Until the fall of 1977, the western mining industry appeared to be relatively strong. With the INCO layoffs in Thompson there is growing uncertainty about the metal-mining industry throughout the west with particularly serious consequences possible in Manitoba and British Columbia. For a time there appeared to be a major new development opportunity in the sale of metallurgical coal to Japan, but the depressed state of the Japanese steel market has postponed new development into the medium term. On the other hand, the oil, gas and related supporting industries continue to be strong in western Canada.
- Across the west there continues to be concern about the international competitiveness of western manufacturing industry in both resource processing and the manufacture of machinery and equipment needed by the resource industries. In late 1976 and early 1977 there was possibility of moving new investment activity south of the border particularly in the farm-machinery sector. The decline in the value of the Canadian dollar has generally made this a less attractive proposition and recent decreases in the rate of wage inflation in Canada have combined further to discourage such plans.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The medium-term future of the western regional economy is one of considerable contrast among the various sectors. The prospects for energy appear bright with the decision to build the Alaska Highway pipeline and the possibilities of further pipeline construction to tap frontier reserves. Furthermore, the announced projects to bring into production the heavy oil deposits in Alberta and Saskatchewan and the probability of more tar-sands plants provides for additional medium-term opportunities. These developments generate a real (but perhaps easily exaggerated) stimulus to both related construction industries and such manufacturing industries as the IPSCO pipe mill at Regina and

industrial housing from ATCO. The uranium resources of Saskatchewan appear promising although environmental concerns are now being examined by a provincial commission of enquiry.

Outside the energy fields there are growing constraints on the long-term development of western Canada. The major forestry resources of British Columbia are already being tapped. The remaining forest resources are relatively remote, relatively slow growing, or of species for which there is as yet only a limited demand. While the mineral resources of northern British Columbia and the Yukon appear rich, there is some concern about longer run competition from third world countries and seabed mining.

The manufacturing industry of western Canada has been largely dependent on processing of resources and further expansion may be limited without major new resource developments. On the other hand, there may be better prospects for industries supplying specialized equipment needed by the mining, pipeline, forestry and other resource industries.

In the early 1970s there were major concerns expressed about the ability of the transport system, particularly through the Rockies and British Columbia ports, to handle the growing resource output of the west and particularly of Alberta. Later analysis and further investment in both rail and port facilities has suggested these concerns were overplayed, but the capability of the transport system to handle resource output in any future boom remains a continuing concern.

The overall guarded optimism associated with most areas of the west is also shared by the two Territories, although there is concern over the degree to which the Native people of the north will benefit from this apparent progress. In the Yukon Territory, mineral exploration, development and production have resulted in a relatively healthy economic climate since the late 1960s. Most of these activities have benefited immensely from the infrastructure that was established in the Territory during and after World War II. It is expected that economic circumstances will continue to remain healthy in the medium term, with development activities planned in the transportation sector and the mining industry, and particularly in the construction of the pipeline across the southern Yukon. The increased employment opportunities that will be generated by these activities should lead to substantial growth in the tertiary sector, including significant growth in the tourism industry.

In the Northwest Territories, income and employment opportunities are dependent on two major activities - resource development and government. Approximately one-half of all wages and salaries in the Territory originate in the government sector. Minerals, oil and gas account for the bulk of exports. However, smaller businesses, often related to traditional ways of life, provide a variety of occupations to Northerners, diversify and stabilize the economy and spread the benefits of major development and government activity among those who do not participate directly in the large sectors. Major

development projects are expected to continue over the medium term and it is evident that these projects will provide real benefits to the northern economy and people. It has been demonstrated recently in oil and gas exploration in the Beaufort Sea, and in mineral production at Nanisivik and the Great Bear Region that private firms find it profitable to hire and depend upon northern workers and local business services, and thereby support not only regional growth centres but also small, distant communities through labour rotation schemes.

MANITOBA

OVERVIEW

Economic indicators continue to point to a slowdown of activity in Manitoba. New capital expenditures are expected to increase by only 5 per cent compared to approximately 11 per cent for Canada. Gross farm cash receipts declined by 4 per cent in 1976 and are expected to have declined a further 7 per cent in 1977. Other goods-producing sectors will experience a further decline in real output, while construction, which registered strong growth in 1976, will expand at a more moderate rate in 1977. Although the service sector will continue to sustain overall provincial performance, it is not expected to be very dynamic. Budget constraints of the federal and provincial governments will further contribute to the anticipated period of slow economic growth. Real output in Manitoba increased by only 0.5 per cent in 1977 and is forecast to increase by 3.1 per cent in 1978, compared with 2.9 per cent and 4.7 per cent respectively for Canada.

The current lack of buoyancy in the Manitoba economy becomes even more pronounced when its performance relative to the other three western provinces is examined. Employment in the manufacturing sector has declined substantially relative to western Canada. The province's share of capital expenditure in western Canada has declined while its share of unemployed has increased. No major new projects appear to be in sight. The Nelson River hydro-electric development, the only major construction project in Manitoba, is largely in place and current western Canadian development projects in energy, pipeline construction and transportation are expected to have only a limited employment impact in Manitoba.

On a positive note, Manitoba has a strong entrepreneurial record and a well-diversified economy, with industrial activity evenly distributed among the main sectors of manufacturing, resource processing, agriculture, and financial and distribution services. A significant improvement in the prospects of any one of these key sectors is almost certain to reflect positively on the overall performance of the provincial economy. In general, however, the medium-term prospects in Manitoba are much more modest than in the other western provinces.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The growth in Manitoba's population continues to remain below the Canadian and western Canadian averages. Between 1961 and 1976, Canada's population increased by approximately one-fourth, western Canada's increased by about one-third, and Manitoba's increased by one-tenth, reaching 1.03 million in 1977. However, the gap in rates of growth have narrowed considerably during the 1971-76 period as compared with the 1966-71 period. Winnipeg and the larger urban centres in rural and northern Manitoba accounted for much of this growth, although Winnipeg's population growth has been lower than that of other large cities in the west. A notable exception to these demographic trends is the province's Status Indian population which continues to grow at a rate more than twice the provincial average.

Labour Market

During 1977, the provincial labour force averaged 460 000, an increase of 10 000 over 1976. With employment increasing at a slower rate, the unemployment rate in Manitoba reached almost 6 per cent in 1977. The manufacturing sector experienced the sharpest decline in employment. Growth in agriculture and other primary-industry employment appears to have offset declines in the manufacturing and construction sectors and, therefore, the net employment growth in Manitoba is directly the result of an expansion in the tertiary sector.

Investment Climate

Total new capital expenditures reached almost \$1.8 billion in 1976, an increase of 16.4 per cent over the previous year. Trade, finance and commercial services and housing were the sectors showing greatest strength, while investment in manufacturing declined by 24.5 per cent following a reduction of 15.7 per cent in 1975. In 1977, new capital expenditures were expected to increase by 4.8 per cent, with manufacturing and institutions the only areas expected to experience growth.

Sectoral Review

- During the past two years, the agricultural sector has not provided as much strength to the provincial economy as it did in the recent past. Gross farm cash receipts in 1976 were \$897 million, down 4 per cent from 1975. Further declines in net income were expected for 1977. The primary reasons for these trends appear to be continuing weakness in international grain markets, rising costs of inputs such as equipment, and poor climatic conditions which have affected both the quality of the grain and the average yield per acre.

- Mining output is expected to decline in real terms in 1977 due to a world-wide surplus of base metals. Nickel, which accounts for 55 per cent of the value of mineral output in Manitoba, is expected to decline 5 per cent in real terms, while zinc, which accounts for 10 per cent of provincial mineral output, is expected to remain at 1976 levels of production. Copper, which accounts for 17 per cent of provincial mineral production, is expected to increase by 5 per cent in real terms, but this is largely the result of a downward revision in 1976 output levels.
- The value of shipments by Manitoba manufacturers was approximately \$2.7 billion in 1976, an increase of only 6.5 per cent in current dollar terms in comparison to increases of 11.5 per cent in Canada and 13.8 per cent in western Canada. In 1977, the demand for manufactured goods remained soft. The value of manufacturing shipments in the first eight months of the year registered an increase of only 6.1 per cent over a similar period in 1976. At the same time, shipments increased by 10.1 per cent in Canada and 13.6 per cent in western Canada. Industrial sectors in Manitoba that have shown some dynamism in 1977 are the food-and-beverage, leather, knitting-mills, printing-and-publishing, metal-fabricating and electrical-products industries. Output in the men's-clothing, machinery and chemical industries declined significantly in 1977 while output in the transportation-equipment industry remained steady. After increasing from \$38 million in 1971 to \$139 million in 1976, farm implement and equipment shipments in Manitoba declined by 20 per cent in the first seven months of 1977 in comparison to the same period of 1976.
- Employment in Manitoba's construction sector declined by approximately 4 per cent in 1977, partly a reflection of the weakness in housing starts during the year. The current restraint effort of the provincial government could result in reduced public-sector construction in 1978.
- Employment growth in the service industries, which increased by 14 000 in 1976, is expected to have declined substantially in 1977 as evidenced by an increase of only 4 000 during the first eleven months of the year. The service sector continues to dominate provincial employment, accounting for 70 per cent of total employment in 1977.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

While in the short to medium term, no major adjustments in the volume of agricultural output are anticipated in Manitoba, the major development appears to relate to increased production of specialty crops. In addition, it is anticipated that farmers may be more receptive to technological innovations, not only as a means of increasing production, but also as a means of increasing efficiency and protecting net incomes. The move to specialty crops may provide opportunities for processing outputs while the tendency to improve efficiency may result in additional activity in the farm-machinery sector. A further consideration is the drought conditions experienced during the spring of 1977 which emphasized the water problems of the prairies. As a result,

increased attention will be afforded to water-management issues, from both a production and processing perspective. The resolution of these water problems could result in a significant economic impact in rural agricultural areas.

Mining has become a mainstay of the economy of northern Manitoba. In the short to medium term, expansion of the mining industry will be limited to increased output from existing mines. Further processing of mineral outputs would increase the industry's impact on the provincial economy, but it is recognized that opportunities for processing must be assessed in the context of external factors. A more remote possibility in the medium term is preliminary development work on promising mineral sites near Flin Flon and north of Lynn Lake. The announced reduction of 650 employees at the INCO operation in Thompson has focussed attention on the declining fortunes of the nickel industry, but similar weak markets are being encountered by Hudson Bay Mining and Smelting Co. Ltd. and Sheritt-Gordon who have major zinc and copper operations in northern Manitoba. However, it can be anticipated that production and employment will pick up as the world mineral markets recover.

The outlook for the Manitoba forestry sector is essentially static. Increased capacity at one or both of the major pulp and paper operations, Manfor at The Pas, or Abitibi at Pine Falls, when assessed in the context of national industry circumstances and world markets, seems unlikely. With the possible exception of Manfor, the sawmilling and lumber industry is largely oriented to intra-provincial markets for rough lumber. In the absence of major expansions by Manfor or Abitibi, future developments will relate to woodlands operations under contract to major operators and community-oriented sawmills in the northlands area. However, with the perfecting of appropriate construction technologies, opportunities for local forestry developments may arise in servicing housing initiatives in the northlands area.

Over time, the position of Manitoba's manufacturing sector relative to Canada and western Canada has deteriorated. Although Manitoba's share of Canadian manufacturing employment and output has been stable in recent years, there appears to be a general lack of development in the manufacturing sector and, consequently, Manitoba manufacturing employment is expected to remain stable in the foreseeable future. Inadequate potable water supplies in many rural communities are not only constraints to agricultural activities but also to other industrial development opportunities.

However, within this general picture there are some specific industrial opportunities that could offset reductions in declining industries and, perhaps, lead to a more positive contribution by the manufacturing sector to the overall performance of the provincial economy. Agricultural and resource developments indicate opportunities in processing activities which would not only generate manufacturing employment but also provide income to primary-producing activities. Proximity to prairie and mid-western markets of the United States and to principal Canadian transportation and energy networks suggest further potential in farm machinery, light metal manufacturing and supporting industries. Manitoba firms have demonstrated basic capabilities, in terms of both production and marketing in regional, national and international markets.

Developments of the energy sector in Manitoba involving Lake Winnipeg regulation, diversion of waters of the Churchill River, and construction of generating stations on the Lower Nelson River, have been a major factor in the provincial economy for more than a decade, both in terms of capital investment and construction employment, which peaked at 4 000. With a fall-off in growth in the demand for electricity due to reduced industrial demand and the sluggish economy, indications are that hydro-electric development will proceed at a slower pace than in the past.

The existing framework for development of the tourism industry relates to attracting visitors to Winnipeg and maximizing visitor impact by dispersing this traffic to adjacent attractions which capitalize on the physical resources and cultural and ethnic diversity of the province. As well, increased emphasis is being placed on encouraging Manitobans to vacation in Manitoba. Under the provincial tourism strategy, upgrading of existing facilities and expansion of tourism and recreation facilities in proximity of Winnipeg are emphasized.

SASKATCHEWAN

OVERVIEW

The Saskatchewan economy has always been dependent on its resource base. Traditionally, its major commodities have been shipped to other markets for processing. Periods of rapid economic growth have resulted mainly from either higher prices for a primary product (such as wheat) or a new resource find (such as potash). On the other hand, a decline in commodity prices or a crop failure has a drastic downward effect on the provincial economy. As a result, the economy of Saskatchewan has been characterized by relatively large swings in economic activity brought about by the heavy reliance upon the primary producing sectors in the province.

The increased capitalization of agriculture with the resulting decline in new agricultural job formation has changed the employment base of the province. Few major secondary manufacturing developments have occurred to offset these changes. The effect has been, until recently, a net out-flow of population from the province, an upward shift in the age distribution of the province's labour force, a significant rural-urban shift in population and the demise of many small communities.

In the medium term, the economy of Saskatchewan will continue to be resource oriented and subject to wide cyclical swings. However, opportunities exist in energy-related mining activities, industrial fermentation (from grain and cellulose), iron and steel related activities and, possibly, farm machinery when local markets firm or when exports can be made to overseas dryland farming areas.

Over the next five years it is necessary to concentrate on balanced growth in Saskatchewan. This would involve initiatives in industrial, rural, forestry and northern development. The aggregate growth issue is not related primarily to increasing Gross Provincial Product. Such increases are likely to be achieved by expansion of the mineral and coal development activities at the primary level. Rather, the major issue is the need for growth in employment opportunities sufficient to absorb both displaced labour from agriculture and new entrants to the labour force.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Saskatchewan's population in 1977 was 936 000, a 1.6 per cent increase from 1976. This increase included some net in-migration and represented a turnabout from the trend in the early 1970s during which the province was losing population. Relative stability has been achieved by a balance between rural out-migration and growth in the cities.

Labour Markets

The unemployment rate in 1977, on average, was 4.5 per cent, a moderate rise above the previous year. Over the past year, there have been approximately 17 000 new persons employed in the Saskatchewan labour force.

Investment Climate

In Saskatchewan, a high dependence on the resource sector has a major influence on the investment performance by the private sector. The weakness in agricultural incomes has slowed down investment in many areas. However, investment in the mining sector has provided some stimulus and certain major developments such as expansion in iron and steel manufacturing (IPSCO) or the uranium sectors could provide a very significant boost to the economy. This depends upon decisions relating to pipeline specifications and subsequent orders for pipe as well as a recommendation by the Bayda Commission to proceed with uranium development.

Total investment in 1977 is estimated at \$2.9 billion, a 7.8 per cent increase over 1976. This growth occurred in the primary, construction, utilities, and housing sectors. Investment in manufacturing increased only slightly in current dollars which suggests a decline in real terms.

Sectoral Review

- Agriculture accounted for one-half of value added in the goods-producing sector in 1976. However, in spite of record crops, both farm cash receipts and farm income dropped from the previous year by a significant amount. Because of lower grain prices in 1977, farm cash receipts and, hence, net income will also be low. It is expected that the Western Grain Stabilization Plan will give a healthy payout to farmers in 1978. Earlier fears of an adverse effect on the crop because of drought and the poor harvesting conditions in early fall did not materialize. Crop grades are generally good and yields are slightly above the long-term average, although below the bumper condition of last year.

The cattle market remained soft in 1977, although it is expected that conditions will improve by mid-1978. The outlook for the hog market is uncertain with concern that an increased hog supply will result in reduced prices to the producer.

- The mining industry is the second largest revenue generator in the goods-producing sector in Saskatchewan. It accounts for about 18 per cent of the value added of goods produced in the province, yet it directly employs only 2 to 3 per cent of the provincial labour force.
- Over the past decade, manufacturing accounted for 10 to 11 per cent of value added of the provincial goods-producing sector and almost 6 per cent of the employed labour force.

Manufactured shipments grew at a current dollar rate slightly in excess of the rate of inflation in 1977.

- The service industries, in terms of both income and employment, continued to become a larger portion of the provincial economy. The entire service sector in Saskatchewan is experiencing a structural adjustment as its traditional highly decentralized distribution system adapts to greater urbanization and more centralized shopping patterns of the remaining rural residents.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

As the world's population continues to grow, there will be a significant increase in the demand for grain. As no policy exists in North America to hold large grain stocks, it is expected that there will be continued volatility in grain prices at least to 1980. However, in general the supply of and demand for wheat, coarse grain and oilseeds should result in a rough balance or, possibly, relatively short supplies. After 1980, the supply of grain will not be sufficient to keep pace with expected demand and some shortages may occur. Price levels at that time would be expected to be close to those of the recent boom years.

The outlook for cattle fed from coarse grains is very uncertain because of competition from grass-fed animals in Australia and New Zealand and some uncertainty about continued access to American markets. However, over the next two years, there should be a strengthening of cattle prices. In the short-term, hog prices should fall, but it is difficult to make a medium-term forecast for hogs beyond noting that this sector also experiences competition from grass-fed-beef substitutes.

In some cases, the transportation structure inhibits development of the processing sector in Saskatchewan, as it is much cheaper to ship raw materials to central Canada than manufactured goods. However, it is not clear that a change in the statutory freight rates for grain would substantially

improve the outlook for cattle production in the province, although grain farmers would suffer substantial direct losses of revenue. The food-processing sector, especially, would stand to gain from a revision of transportation rates as this sector is presently suffering from over-capacity due largely to constraints in distributing its product to markets in more populated areas of the country.

It is anticipated over the medium-term that some expansion will occur in the steel and related metals sector. The construction of the Alaska Highway pipeline could provide IPSCO with an excellent opportunity to supply a significant portion of the pipe required. These new requirements would help to justify the expansion of the Regina and Edmonton steel operations. The decision of the Canada-U.S. technical committee which is examining the pipe specifications will be important in determining IPSCO's involvement in the project.

Private sector investment in the industrial fermentation sector, which includes high fructose syrup, biodegradable plastics, antibiotics, and ethanol as both a gasoline extender and an industrial chemical, could provide an industrial market for grain.

Declining farm receipts have adversely influenced farm implement manufacturing. However, in the medium-term, this industry should regain its health as the market for grain firms in the long run. Over the next few years a possible boost to this industry would be a concentrated effort to export Saskatchewan farm implements to other dry land farming areas of the world.

Due to an increasing medium- and long-term demand, there should be significant expansion in energy-related mining, such as uranium, coal and heavy oils and the continued expansion of potash.

ALBERTA

OVERVIEW

Since 1974, Alberta's overall economic performance has been strong as provincial Real Domestic Product, average weekly wages and total personal income have all increased faster than the national average. Although the 1977 performance overall still exceeded the national average, the completion of the construction phase of Syncrude and other energy-related developments have contributed to a somewhat lower rate of employment growth and an increased unemployment rate. The performance of the economy was further dampened by soft world wheat prices and problems in the livestock sector. It is expected that Alberta will maintain its slower growth rate throughout 1978.

The economic prospects for Alberta are very good over the medium term. A number of major energy-related projects will begin their construction phase during the second half of the 1978-82 period. Opportunities will also exist for diversifying the provincial economy through increased processing of agricultural and forest products, irrigation development, petrochemical processing, and tourism development. These opportunities, with the growth of in-migration that they imply, will maintain continued strength in the general construction and service sectors.

However, the successful realization of provincial economic opportunities will be affected by several factors. The major energy-related projects may face problems acquiring sufficient capital and skilled labour unless the timing of the major projects is sufficiently coordinated. Growth of a petrochemical industry will depend on world market considerations as well as the future world price for crude oil. Agricultural processing and agricultural performance in general will be dependent upon access to markets and an efficient transportation system.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The population of Alberta increased from 1.6 million to 1.9 million between 1971 and 1977 as that province has now overtaken British Columbia as the most rapidly growing province in terms of population. The annual population growth rate accelerated during the period and reached 3.4 per cent in 1977. It is expected to drop slightly during the 1977-79 period and then rise again as in-migration rates respond to employment opportunities generated by development projects which begin construction in the 1979-82 period. By 1982 the province is projected to have a population in excess of 2.2 million, the majority of which will be concentrated in the Edmonton-Calgary corridor.

Labour Market

Alberta entered the 1970s with an unemployment rate of 5.1 per cent and an annual employment growth of 1.6 per cent. Major developments in the energy sector stimulated the economy to the extent that, by 1974, the unemployment rate had dropped considerably. The annual employment growth rate experienced in the mid-1970s was not sustained in 1977 and the unemployment rate rose to 4.4 per cent. It is projected to continue at this level through 1978, but energy-related developments in the medium-term can be expected to push the rate of employment growth up to levels prevailing earlier in the seventies. This growth may lead to some shortages in skilled labour and upward pressure on selected wages and salaries.

Investment Climate

Alberta has enjoyed a very favourable investment climate throughout the 1970s. Early in the decade, new capital expenditures increased considerably, rising to a high of 30 per cent in 1976. In 1977 new capital expenditures are expected to have increased by about 18 per cent. High annual increases are expected to persist in the 1979-82 period when oil sands, gas pipeline and other major projects generate major new investments.

Sectoral Review

- Alberta's net farm income rose from \$270 million in 1970 to \$815 million in 1975, mainly on the strength of increased grain prices. Farm cash receipts began to decline in 1976, a trend which has continued in 1977. The relatively poor performance of the agricultural sector was due to rising operating costs in the face of poor weather and world grain prices as well as problems in the livestock sector. Farm income is expected to continue to remain stable or decline slightly over the next few years unless there is a resurgence in agricultural commodity prices.

- Alberta's production of bituminous and sub-bituminous coal doubled from 1970 to 1976 to reach 14.5 million short tons. A number of new thermal power plants are planned during the period to 1982 leading to continuing increases of thermal coal production within the province.
- Crude oil production peaked in 1973 at 523 million barrels and by 1976, production had declined to 386 million barrels. The current downward trend in production levels will continue through 1982, but the decline will be slowed somewhat by increased production from Alberta's oil sands. Natural gas production in Alberta has increased each year since 1970. New discoveries indicate that production levels could continue to increase over the next few years. The rate of increase will rise significantly if the southern portion of the Alaska Highway pipeline is built first and temporarily used to transport Alberta gas to the United States.
- Since 1975, manufacturing activity has grown at a faster rate than the overall provincial economy. However, in 1976 it accounted for only slightly less than 10 per cent of total output in Alberta, compared with over 20 per cent nationally. The food and beverage industry, which constitutes 25 per cent of manufacturing value added, will continue to expand at a moderate rate. The petrochemical industry in the province is expanding and is expected to continue to increase its share of manufacturing value added if it can overcome world marketing problems. Similarly, the lumber industry has improved over the past two years, but its viability in the medium-term is dependent upon international market demand. The outlook for the pulp and paper industry in the province over the next five years appears encouraging.
- As is the case in other provinces, the service sector is Alberta's largest employer. As Alberta's population expanded and its economy became more sophisticated, the service industries have dramatically increased their share of provincial employment. In 1977 this sector generated half of provincial value added and provided for approximately two-thirds of the employed labour force. Led by rapidly rising retail sales and the importation of higher level service activities associated with financing and engineering, the service sector is expected to continue to grow over the next five years.

Sub-Provincial Circumstances

Alberta's dependence upon energy, agriculture and construction has created a geographic imbalance in the distribution of the benefits of economic growth. This economic imbalance has been expressed in rapid growth in the Edmonton-Calgary corridor and limited change in rural communities, especially those in the northern and east-central regions. Although the trend has been slowing, Alberta's rural population continues to shift into the corridor in pursuit of better job opportunities. Edmonton and Calgary continue to be the focal points of population growth in the province.

Despite these trends, many rural communities now encountering economic problems have the potential to diversify their economic base and participate in economic growth. Further processing of agricultural and forest products could lead to increased activity in all economic sectors of the rural community.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

Construction of the Alberta portion of the Alaska Highway natural gas pipeline is expected to commence in late 1978 and be completed in 1982. This project will provide a major stimulus to the province as a sizeable proportion of the labour and materials will come from the province.

Three potential oil sands ventures may commence during the next five years. Imperial Oil Ltd. has proposed construction of a \$4 billion in situ oil sands plant in the Cold Lake area. The construction phase could begin in 1981 and continue to 1985. The Syncrude project is expected to expand and a third surface mining oil sands plant, projected to cost \$3.5 billion, is a further possibility. However the scale of oil sands development will depend upon the future world price for crude oil. These developments may well replace pipeline construction activity as the leading source of provincial growth during the 1980s.

A \$520-million heavy oil upgrading facility for the Lloydminster area has been proposed with construction occurring through the period to 1982. The oil deposits straddle the Alberta-Saskatchewan border and decisions have not been made on the location of the project.

The development of a major petrochemical industry has been identified by the provincial government as a significant development opportunity for Alberta. However, in the medium term, there is still uncertainty over markets, particularly in view of excess North American capacity.

Opportunity exists in Alberta for the processing and packaging of agricultural products. An opportunity for further irrigation development also exists in southern Alberta. Questions of adequate water supply and appropriate on-farm irrigation technology must be dealt with first before this opportunity can be realized.

A \$250-million fibre mill at Whitecourt is projected with a construction start in 1982. An opportunity for a thermal-mechanical pulp mill exists, representing a further potential major capital investment. The projects will depend on capital availability, market price considerations and transportation costs.

BRITISH COLUMBIA

OVERVIEW

Real output in British Columbia is forecast to rise by 4.8 per cent in 1978, marginally above the rate envisaged for Canada as a whole. In 1977, real output increased by almost 4 per cent, somewhat lower than the 5.9 per cent reached in 1976, but representing continued recovery from the decline experienced in 1975. Recent years have seen a convergence of the growth trends of British Columbia and Canada, in contrast to the more rapid growth of the province prior to the mid-1970s. A declining rate of growth in the British Columbia economy is a result of a slowdown in the world economy and corresponding weak markets for British Columbia's natural resources. Modest real growth of the economy has not resulted in any reduction of the habitually high rate of unemployment, which, estimated at 8.5 per cent in 1977, was the highest west of Quebec. The rate of population increase, traditionally the highest in Canada, has been slowing appreciably since 1974. New capital investment is expected to increase by 14.1 per cent in current dollar terms in 1977, an improvement over the 10.3 per cent recorded in 1976. The provincial government, advocating restraint in government expenditures and government fiscal responsibility, is anticipating a balanced budget at the \$3.8 billion level for 1977-78.

The medium-term prospects of the British Columbia economy suggest stability and moderate growth. There is little evidence, however, that major increases in international demand for British Columbia exports can be expected before the early 1980s.

ECONOMIC CIRCUMSTANCES

Demographic Trends

According to the 1976 census, the population in British Columbia was 2.5 million. The province, traditionally a major recipient of interprovincial migration, has for the past two years lost its primary position to Alberta. However, the province's total population in the period 1971-76 grew by 12.9 per cent, down from 16.6 per cent for the 1966-71 period. The geographic distribution of population growth in British Columbia between 1971 and 1976

was in contrast to metropolitan growth occurring in most areas of the country. Between 1971 and 1976 population in the Vancouver-centred Lower Mainland grew by 6.1 per cent, while the Victoria metropolitan area population increased by 9.7 per cent. By comparison, non-metropolitan British Columbia had the highest rate of population growth, 16.2 per cent.

Labour Market

The British Columbia labour market is characterized by its persistent high rate of unemployment, averaging 8.5 per cent for the last three years. There was a reduction in the rate of labour-force growth in 1977, which was partly related to the decrease in the rate of population growth. However, job creation in the last two years was insufficient to reduce unemployment levels. Average weekly wages and salaries in British Columbia continued to be the highest in Canada during 1977, approximately 12 per cent above the national average.

Investment Climate

Capital investment performance in British Columbia, forecast at \$5.4 billion in 1977, is anticipated to be marginally better than in 1976. Total capital expenditure is expected to rise by 14.1 per cent compared to 10.3 per cent in 1976. In relative terms the manufacturing sector will gain most. However, much of this investment represents modernization and will contribute little to new employment opportunities. Much slower growth in capital investment will likely occur in trade, finance and commercial services (9.0 per cent) and institutional and government services (8.4 per cent). Among large firms, anticipated investment during 1978 is expected to remain relatively high, perhaps as high as 24 per cent above the 1977 figure.

Sectoral Review

- In the agricultural sector, farm cash receipts for the first eight months of 1977 totalled \$269 million, 4.7 per cent below the comparable period in 1976. Current information, however, suggests that an excellent harvest of tree fruits will strengthen the final total.
- To date, the fishing industry is enjoying a good year with the landed value of catch comparable to the record year of 1976. Prospects for 1978 likewise appear good.
- Problems of lower prices and slack world demand for some of British Columbia's leading minerals that began to intensify during the latter half of 1977 failed to prevent the value of mineral production in the province from reaching a record forecast \$1.8 billion during the year, up \$316 million over 1976. Higher natural gas prices and a small production increase made natural gas the leading commodity at \$403 million. Despite slumping world markets and depressed copper prices,

copper production (linked closely to a buoyant demand for the by-product molybdenum) increased by more than 10 per cent and value rose to \$397 million. The value of coal production is expected to rise to \$392 million, with production increasing to 8.7 million tons from 7.5 million in 1976 when strikes affected major producers. Reflecting reduced world demand, zinc and lead shipments over the first nine months were down. A drop in crude oil production was more than offset by higher prices.

- The strengthening of the manufacturing sector is largely attributable to increased lumber production and higher lumber prices that are related to a strong U.S. housing market. Lumber production was up 15 per cent in the first six months of 1977. Prices have fallen from record levels recorded in mid-1977 but overall demand in 1978 is expected to remain high in line with U.S. housing start predictions. Paper and pulp production was weak during the first eight months of 1977, with paper production stable and pulp down by 7.4 per cent. Pulp inventories have been reported at 800 000 tons, twice their normal levels. Some producers suggest a three-month shutdown will be necessary in 1978. The total value of factory shipments for all manufacturing industries was 16.1 per cent higher for the first eight months of 1977 over 1976.

Sub-Provincial Circumstances

The recently announced Alaska Highway pipeline and the Revelstoke Dam projects may have a significant impact on the provincial economy, especially in the non-metropolitan areas. As well, the announced modernization of existing facilities in the resource-based industries and a number of other mining, forest-based and utility-industry developments suggest some future growth in the interior of the province. However, much of this investment is capital intensive and while implying construction activity, does not necessarily lead to structural change and large-scale permanent employment creation.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

External factors will dominate the medium-term economic future of the province. Investment decisions relating to thermal and metallurgical coal resources, copper resources, interior sawmilling development and pulp and paper opportunities within the province will be determined largely by export demand.

Development of Hat Creek coal, near Kamloops, for domestic thermal power generation is a major development opportunity that could be realized in the medium term. Thermal coal production for export mainly to Japan and Korea may be brought on-stream by existing coal mine operations in the East Kootenays, by new producers near tidewater on Vancouver Island, and, possibly, as a result of activity at Hat Creek. Present difficulties in the world steel

industry are reflected in the inability to sign new contracts for metallurgical coal sales, as well as in presently depressed prices. It would not be before the 1980s that northeast coal as well as expanded Kootenay coal production would find markets. In conjunction with these developments, deep-water bulk port facilities at Prince Rupert and Vancouver would have to be expanded as well as bulk rail-handling facilities.

New gas discoveries in northeast British Columbia, the Alaska Highway gas pipeline and the construction of more hydro-electric generating capacity in northern British Columbia are additional development opportunities that may be realized in the next few years.

Copper mines are presently suffering from weak world markets. In the medium term, improved commodity prices may stimulate the development of new open-pit copper mines in the central interior and northwest and there may be an additional opportunity for the establishment of a new copper smelter.

The sawmilling potential in the northern interior has not been fully realized. Increased activity in this sector could result in the construction of new sawmills. Also, there would appear to be an opportunity for expansion of pulp and paper capacity in the province. Both coastal and interior locations have been suggested, but development will be dependent upon an improvement in world markets from their currently depressed state.

The coastal fishing industry could experience significant growth in output as the salmonoid-enhancement program gains momentum. Similarly, the agricultural and livestock industries should benefit from new programs specifically aimed at improved resource management and improved irrigation.

A healthy Alberta economy may well keep population growth in British Columbia down to the recent lower rate and, perhaps, result in reduced local demands for residential housing. On the other hand, transportation investment, particularly in port development, may be necessary to complement the growth in Alberta.