

HT
395
.C32
A5
Manitoba

ECONOMIC DEVELOPMENT PROSPECTS IN MANITOBA

One of a series of reports
on development prospects
in the provinces, territories,
and regions of Canada
prepared by
the Department of Regional Economic Expansion



Government
of Canada

Gouvernement
du Canada

Regional
Economic
Expansion

Expansion
Économique
Régionale

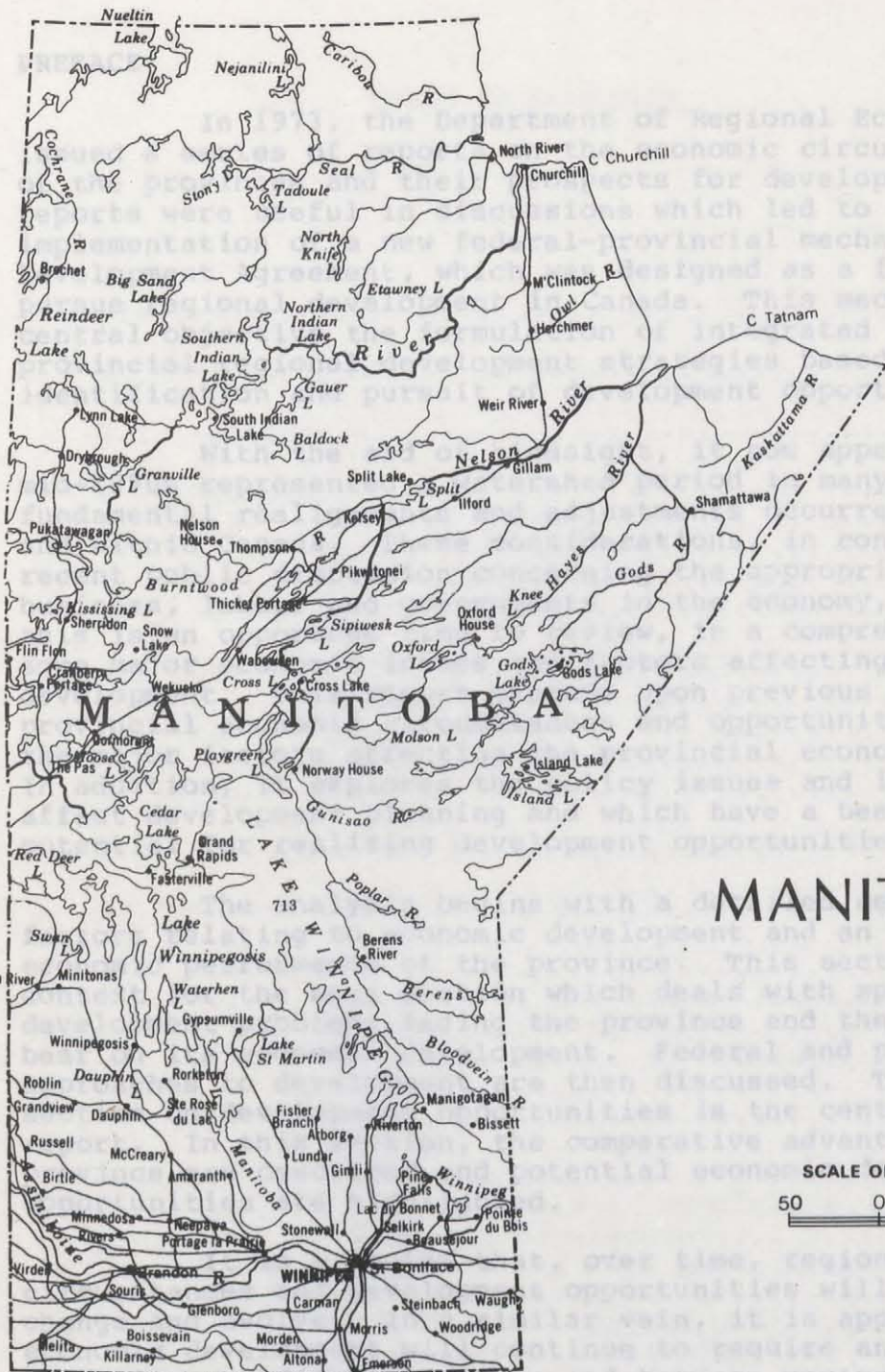
December 1979

Industry, Trade
and Commerce Industrie
et Commerce

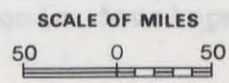
MAR 22 1983

Library Bibliothèque

ECONOMIC DEVELOPMENT PROSPECTS
IN MANITOBA



MANITOBA



the Department of Regional Economic Expansion
 economic circumstances of each
 acts for development. These
 systems which led to the successful
 implementation of a federal-provincial mechanism, the General
 designed as a flexible tool to
 address the needs of the
 mechanism has as its
 led federal-
 on the
 opportunities.

appears that the
 many respects, as
 occurred internationally
 in conjunction with the
 appropriate roles of
 autonomy, suggest that
 a comprehensive fashion,
 affecting regional
 on previous GREP reviews of
 development opportunities by examining
 provincial economy's performance.
 key issues and instruments which
 which have a bearing on the
 present opportunities.

with a view to
 development and an assessment of the
 province. This section provides a
 which deals with specific
 the province and the issues which
 deal. Federal and provincial
 then discussed. The following
 unities is the central focus of the
 cooperative advantages of the
 potential economic growth

over time, regional economic
 opportunities will continue to
 far vein, it is apparent that
 tions to require an evolving spirit
 and between various orders of
 government. In this context, it is hoped that this report will
 serve as a backdrop to federal-provincial discussions on the
 economy and to the further formulation and implementation of
 integrated federal-provincial development strategies and, at a
 broader level, contribute a spatial dimension to economic
 policy-making over the medium term.

PREFACE

In 1973, the Department of Regional Economic Expansion issued a series of reports on the economic circumstances of each of the provinces and their prospects for development. These reports were useful in discussions which led to the successful implementation of a new federal-provincial mechanism, the General Development Agreement, which was designed as a flexible tool to pursue regional development in Canada. This mechanism has as its central objective the formulation of integrated federal-provincial regional development strategies based on the identification and pursuit of development opportunities.

With the aid of hindsight, it now appears that the mid-1970s represented a watershed period in many respects, as fundamental realignments and adjustments occurred internationally and within Canada. These considerations, in conjunction with the recent public discussion concerning the appropriate roles of business, labour and governments in the economy, suggest that this is an opportune time to review, in a comprehensive fashion, some major economic issues and factors affecting regional development. This report expands upon previous DREE reviews of provincial economic circumstances and opportunities by examining the major factors affecting the provincial economy's performance. In addition, it explores the policy issues and instruments which affect development planning and which have a bearing on the potential for realizing development opportunities.

The analysis begins with a detailed description of factors relating to economic development and an assessment of the economic performance of the province. This section provides a context for the next section which deals with specific development problems facing the province and the issues which bear on its economic development. Federal and provincial approaches to development are then discussed. The following section on development opportunities is the central focus of the report. In this section, the comparative advantages of the province are described and potential economic development opportunities are highlighted.

It is a truism that, over time, regional economic circumstances and development opportunities will continue to change and evolve. In a similar vein, it is apparent that economic development will continue to require an evolving spirit of policy coordination within and between various orders of government. In this context, it is hoped that this report will serve as a backdrop to federal-provincial discussions on the economy and to the further formulation and implementation of integrated federal-provincial development strategies and, at a broader level, contribute a spatial dimension to economic policy-making over the medium term.

TABLE OF CONTENTS

	<u>Page</u>
1. OVERVIEW.....	1
2. ECONOMIC DEVELOPMENT FACTORS.....	3
2.1 Background.....	3
2.2 Factors.....	5
2.2.1 Resource Endowments.....	5
2.2.2 Market Environment.....	10
2.2.3 Human Resources.....	11
2.2.4 Sub-Provincial Distributions.....	13
2.3 Overview of Economic Performance.....	19
2.3.1 General Indicators.....	19
2.3.2 Labour Market.....	21
2.3.3 Investment Climate.....	23
2.3.4 Sectoral Review.....	25
2.4 Strategic Provincial Prospects to 1985.....	33
3. DEVELOPMENT PROBLEMS AND ISSUES.....	36
3.1 Constraints.....	36
3.1.1 Structure of the Labour Force.....	36
3.1.2 Transportation Linkages.....	37
3.1.3 Water Constraints to Economic Development.....	37
3.1.4 Industrial Structure.....	38
3.2 Some Specific Issues.....	39
3.2.1 Winnipeg's Role in Manitoba's Economic Development.....	39
3.2.2 Rail Route and Rate Adjustments.....	39
3.2.3 Outcome of GATT.....	40
3.2.4 Hydro-Electric Development.....	40
3.2.5 Government Responsibility for Services to Native People.....	41

4. FEDERAL AND PROVINCIAL INSTRUMENTS.....43

4.1 Provincial Development Priorities.....43

4.2 Provincial Instruments.....44

4.2.1 Fiscal Capacity.....44

4.2.2 Resources Development.....44

4.2.3 Economic Development.....44

4.3 Federal Instruments.....45

4.3.1 Regional Development and the
Agricultural Sector.....45

4.3.2 Manufacturing and Processing.....45

4.4 Federal-Provincial Instruments.....46

5. ECONOMIC DEVELOPMENT OPPORTUNITIES.....47

5.1 Synopsis of Comparative Advantages.....47

5.2 Winnipeg's Role in Western Canada.....48

5.3 Manitoba as a Regional Manufacturing Base.....48

5.4 Increase Value-Added to Resource Products.....51

5.4.1 Southern Rural Manitoba.....51

5.4.2 Northern Resource Region.....52

5.5 Service Sector Opportunity.....53

6. SUMMARY AND CONCLUSIONS.....55

1. OVERVIEW

Economic growth in Manitoba during the 1970s did not keep pace with the performance of the Canadian economy. The province's shares of both national and western real output, population, personal income, employment and investment have all declined.

Historically, Manitoba's economic performance has been heavily dependent upon markets, domestic and foreign, beyond provincial boundaries. The province developed on western agricultural settlement and grain exports, which were augmented by manufacturing, processing, and footloose industries. In the future, the large resource investments further west and the expanding economies of the Pacific Rim provide a good opportunity for Manitoba to adapt its natural resource, manufacturing and service base to supply materials and to provide services to these growing markets.

There are good prospects for Manitoba to expand its role as a regional manufacturing and service centre for the new western resource industries. Winnipeg already has a large and diversified manufacturing base. Its proximity and transportation linkages to western markets provide the locational requirements for expanding the manufacturing and supply activities that will be needed by many of the massive western development projects.

The development potential of manufacturing in Manitoba lies in several industrial areas. The province has advantages for the primary processing of meat products and special crops. Employment in transportation equipment can be expanded on the basis of existing capabilities in truck body and commercial trailer manufacturing. The metal fabricating industry has the capacity to produce a wide range of products which will be needed in western resource industries. Firms in Manitoba have demonstrated the capacity to produce agricultural machinery and a range of aerospace products for extraprovincial markets. Successful growth of manufacturing, however, will require improved productivity, labour skills and government/industry cooperation.

Economic development in Manitoba is always highly dependent on the expansion of output and value-added in the resource sectors. In southern agro-Manitoba the capacity to produce special crops and livestock products for processing into semi-finished and finished goods within the province can provide an important complement to the grain economy. Resource-based and

value-added activities in mining, forestry, fishing and trapping will be important to maintain northern economic activity and provide options for the participation of people of native ancestry.

Prevailing federal and provincial development policies continue to affect Manitoba's economic performance. In earlier years, settlement and transport policies were the major influence on provincial economic prospects; this created the provincial dependence upon regional markets. Currently, a number of public agencies, such as the Canadian Broadcasting Corporation, Air Canada and organizations involved in Canadian grain marketing generate a substantial employment base and strongly support the agricultural, communications, and entrepôt functions of the Winnipeg area. Policy initiatives by the Province of Manitoba to seek public and private agency cooperation to resolve problems in grain handling and to establish an interprovincial power grid could contribute substantially to the economic prospects of the province.

There are numerous constraints on Manitoba's development potential. Significantly, many of these are also highly sensitive to federal and provincial development policies. The realization of Manitoba's manufacturing opportunities will require improvement in both the quality and quantity of the province's skilled labour force and increased cooperation between government and industry. Improved labour force skills, expanded industrial support activities and better transport communications to western markets are necessary prerequisites if the province is to gain access to, and realize benefits from, the western Canadian economy in the 1980s. Measures to develop Winnipeg's traditional role as a major manufacturing, financial and distribution centre could strengthen the province's role in the growing western economy.

In the 1980s a major opportunity for the Winnipeg and Manitoba economies lies in the development of stronger economic ties with extraprovincial markets. This challenge will require initiatives by both public leaders and private entrepreneurs: accordingly, federal economic development priorities with Manitoba should seek to strengthen and expand Manitoba's ties with both foreign markets and the rapidly growing western resource economy; and to sustain and reinforce Winnipeg's role as an international capital of the grain trade as well as a financial, transportation, and agricultural research centre.

2. ECONOMIC DEVELOPMENT FACTORS

2.1 Background

The performance and prospects of the Manitoba economy are determined through the interaction of a wide range of factors which include natural resource endowments, human resources, geographical location, spatial distribution of resources, institutional arrangements and the linkages of the provincial economy with regional, national, and international economies. This section will outline these factors briefly and indicate how they have been interwoven in the past to result in the contemporary Manitoba economy.

From its early economic history -- the fur trade era and the time of MacDonald's National Policy (which promoted settlement of western Canada, railroad construction throughout the country and secondary industry in central Canada) -- Manitoba's economic development has been intricately intertwined with the broader regional and national economies. Initially, Manitoba was settled in response to external demands for fur staples. Later, service and manufacturing activities expanded to service the need of growing agriculture-based settlements across the prairies. Because of its geographical location, Winnipeg developed as the "entrepôt" linking the primary resource-exporting region of the prairies to the financial and business capitals in central Canada. On one hand, this was reflected in the emergence of transportation, distribution, wholesaling and manufacturing activities to service the market demands of the growing prairie settlement; on the other hand, it caused the emergence of financial, commercial and transportation, and later again, processing activities associated with the export of primary resource products from western Canada. The opening of new primary resource frontiers in northern Manitoba in forestry, mining and hydroelectric developments added further dimensions to the resource production and service/supply relationships which had become established in the Manitoba economy.

The evolution of the Manitoba economy began in earnest with the completion of the railway linking eastern Canada and Manitoba in 1885, and accelerated during the 1890s and 1900s with the federal government's homesteading policy. Until World War II the course of the Manitoba economy was largely determined by the health of the agricultural sector, which varied with world wheat prices, climate and levels of domestic production. Between World War I and 1930, additional impetus to the provincial economy came from resource developments, growth in the pulp and paper industry

metal mining and manufacturing: these in turn engendered an increase in electric power production.

The post-World War II years witnessed tremendous investment: Manitoba enjoyed a capital input of \$5 billion, as a result of rundown capital equipment and pent-up demand. During this period farming practices and manufacturing techniques changed radically as rising wages, continuing labour shortages and improved technology encouraged entrepreneurs to invest in new processes. While these capital investments in the farming and manufacturing processes were taking place, the development of the primary pulp and paper and minerals extraction industries was given new impetus. Winnipeg continued in its entrepôt function for western Canada although some relative erosion of this activity was becoming evident as cities to the west gained economic strength and importance.

By 1957 the steam had gone out of the Canadian and Manitoba economies. There followed a period of adjustment which lasted about four years. Thus most economic activity in the province was slow until 1961 when more favourable international and national economic conditions as well as major wheat sales provided the necessary stimulus to launch the economic expansion which lasted until the late 1960s.

In the 1960s the Manitoba economy registered a reasonably solid increase in most production sectors. Only the forestry and the fishing sectors declined in net value of production between 1961 and 1970. In the final years of the decade, however, the demand for wheat on the world markets dropped significantly, leaving the prairie farmer with grain surpluses and low prices. Nevertheless, through economic diversification, declines in lagging sectors were offset by gains in the leading sectors. Overall growth was realized during the 1960-72 period, but at rates below the national average. Public sector investment in roads, schools, and northern hydrodevelopment were important contributors to the province's economic performance over the course of this decade.

Although the Province of Manitoba entered the 1970s with a diversified economy, the linkage of a large portion of manufacturing and service activities to primary resource production retained sensitivities to world demands for agricultural and primary products. In addition, the dominance of one major centre (containing over 50 per cent of the population) led the province to undertake a series of programs and public investment measures to strengthen the sub-provincial economies. Although historically performing only marginally below that of

Canada as a whole, by the mid-1970s Manitoba's economy was manifesting symptoms of frailty: continued out-migration, erosion of Manitoba's predominance in manufacturing and service activities for the prairie provinces and declining private sector investment.

2.2 Factors

2.2.1 Resource Endowments

Manitoba covers 640 000 square kilometres in the heart of the North American continent. Agricultural land lies in a triangular block in the southern part of the province. One base of the triangle runs along the American-Manitoba border, the second along the Saskatchewan-Manitoba border, while the third cuts diagonally across the province from the southeast corner to a point west of Lake Winnipegosis. The bulk of Manitoba's population lives in this area, which constitutes the major part of the Manitoba Lowland and Western Upland physiographic region (see Chart 2.1).

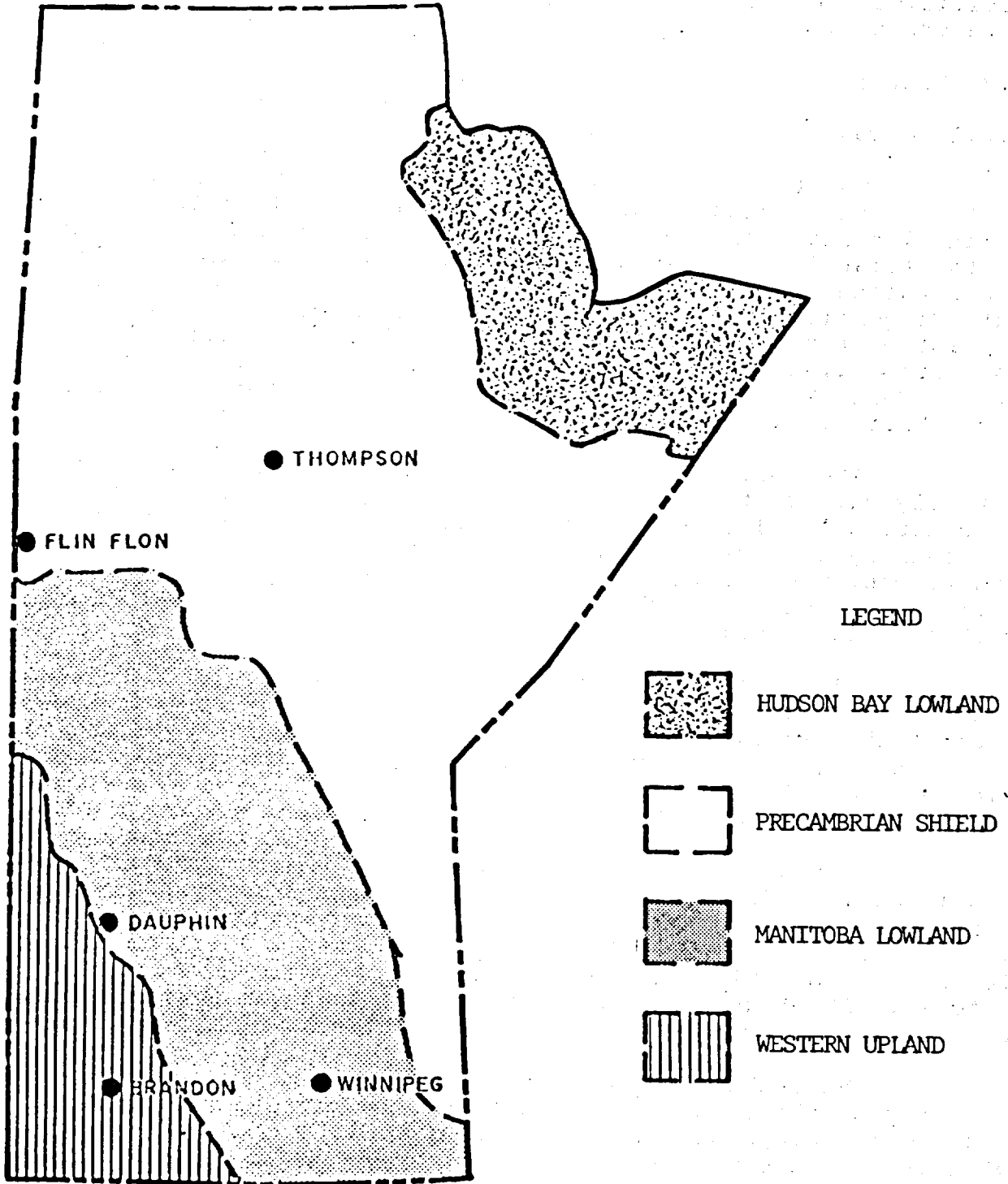
The northern three-fifths of the province is of an entirely different geographical formation, lying within the Precambrian Shield, where rock generally comes to the surface. The country is very rugged, forest-covered and laced with lakes and rivers. Beyond this, in an area which lies roughly north of a line drawn west from Churchill, is the arctic tundra, an area with only low-growing vegetation.

All surface waters in Manitoba flow to Hudson Bay. The principal rivers are the Nelson, Churchill and Hayes Rivers, and their tributaries, which flow directly into Hudson Bay; the Saskatchewan, Red and Winnipeg Rivers, which drain into Lake Winnipeg; and the Assiniboine, a tributary of the Red, which runs most of its length through the agricultural area of Manitoba.

Because of its geographical location, Manitoba has a continental or "land controlled" climate, moderately dry with large variations in seasonal temperatures. Annual precipitation varies from 33 cm in northern Manitoba to 56 cm in the southeast; 70 per cent of this falls in the six-month period from May to October. About 40 per cent of the total falls in May and June, the critical growing season for agricultural crops.

Manitoba's agricultural resource base is founded on the capacity of the land, in conjunction with water and climate, to produce the crops used for the consumption, processing or feed of livestock and poultry. Of Manitoba's land base 12 million hectares or 21.6 per cent has agricultural capability. Only 5 million hectares or 9.3 per cent is suitable for sustained annual production of common cultivated crops; 2.4 million hectares or

MANITOBA



PHYSIOGRAPHIC REGIONS

4.4 per cent have limitations for cultivated crops; and 4.3 million hectares or 7.9 per cent are suitable for forage or pasture.

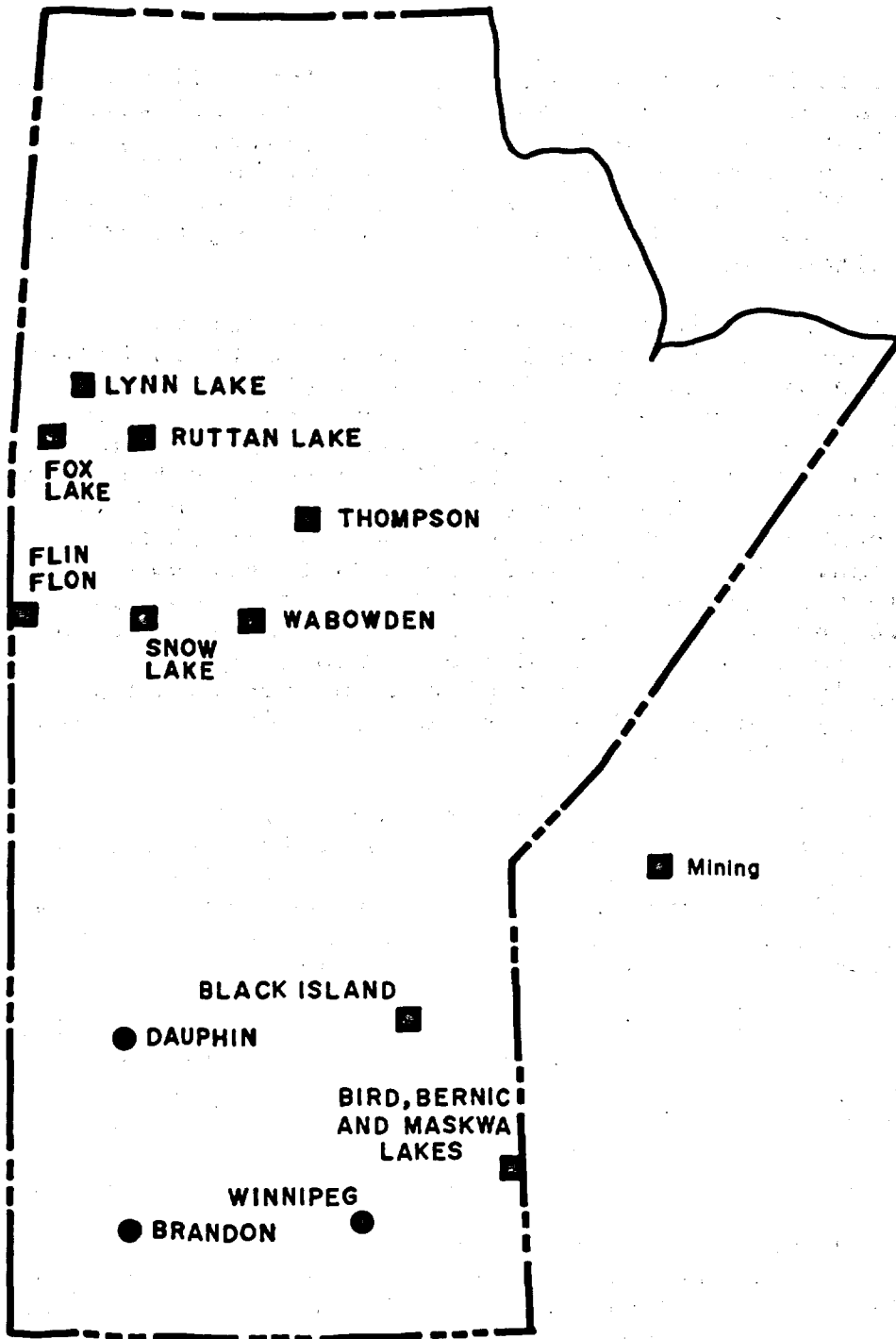
Wheat is Manitoba's leading crop: almost 35 per cent of the total 1975 acreage in crop production was planted with wheat. Barley, oats, flax and rapeseed accounted for 16.8, 9.1, 8.2, and 7.3 per cent of the total acreage respectively. In addition to grains and oilseeds, a wide variety of vegetables are grown including peas, sugar beets and potatoes. These vegetables are marketed in Manitoba and elsewhere.

The livestock industry continues to constitute a significant proportion of the agricultural industry in Manitoba. Of the 30 000 census farms in Manitoba in 1976 some 20 000 reported cattle and almost 6 000 were classified as cattle farms. Manitoba has 9.5 per cent of the cattle and calves on farms in Canada. This number has increased by 25 per cent in the last ten years whereas for all of Canada the increase has been 10.2 percent. The number of beef cows indicates the level of feeder cattle production. Manitoba's beef cow herd of 460 000 has increased by 40 per cent over the last ten years, and now represents 11.6 per cent of the beef cow herd in Canada. Dairy cow operations are largely centred around Winnipeg and in rural areas which supply cheese and milk plants in several rural centres. Most new poultry plants are located within a radius of 80 to 95 kilometres from Winnipeg.

The developed mineral resource base of Manitoba is concentrated in metallic minerals, which over the past decade accounted for, on average, more than 80 per cent of the value of Manitoba's mineral production. In turn, 90 per cent of metallic mineral production, which is concentrated in the Flin Flon-Snow Lake, Fox River-Thompson, and Leaf Rapids-Lynn Lake areas (see Chart 2.2), is accounted for by three minerals -- nickel, zinc and copper. Pegmatite minerals -- principally tantalum, along with small amounts of lithium and cesium -- are mined near Bernic Lake (which is reported to be the world's largest known reserve of cesium ore) as well as a variety of other rare minerals of potential market value. The province also produces small amounts of gold, silver, cobalt, selenium, lead, cadmium and tellurium.

Non-metallic resource production, such as industrial aggregates and fuels, have typically accounted for less than 20 per cent of the value of Manitoba's total mineral production. Production of crude petroleum in the southwestern area of the province is declining: it has fallen from 835 million litres in 1972 to 636 million litres in 1977. Nevertheless, because of rising prices the value of production has been increasing. Industrial minerals such as cement, stone, sand and gravel are primarily produced to meet local needs, while items such as

MANITOBA



NORTHERN MANITOBA MINING

peat moss are destined primarily for export markets. Other industrial minerals produced in Manitoba include quartz (silica sand), gypsum, and lime and clay products.

Manitoba's forest resource area covers approximately 323 000 square kilometres -- 60 per cent of the total land area of the province. According to 1976 forest inventory estimates, productive forest land constitutes 26 per cent of the provinces' land area. Most of the 140 000 square kilometres of productive forest is Crown land. The principal tree species in the province are spruce, jack pine, aspen, poplar, white birch, balsam fir and tamarack larch. The marketable timber from all forests in Manitoba is estimated at 20.3 million m³. Softwoods, or conifers, total 15 million m³ while hardwoods, or broad-leaved trees, account for the remaining 6.3 million m³. The most common species is black spruce, which constitutes 35 per cent of the total timber supply in the province.

Economic exploitation of the forestry resource is concentrated in northern Manitoba and the east side of Lake Winnipeg. The Manitoba forest industry is dominated by two large integrated operations: Manitoba Forest Resource Ltd. at The Pas and Abitibi Paper Company at Pine Falls, which provide an estimated 95 per cent of the provincial employment in pulp and paper mills including woodlands operations. Other substantial forestry-based plants are located at Swan River in northwest Manitoba and at Sprague, in the southeast corner of the province near the American border. There also are a number of smaller sawmill operations scattered throughout the northern and forest fringe areas of the province.

Manitoba's rich hydro-electric power resources are concentrated in its northern rivers. Of the total electric generating capacity of 3 000 megawatts in 1978, 90 per cent is hydraulic and only 10 per cent thermal. Stations on the Nelson River account for over 60 per cent of the total hydro-electric generating capacity, followed by those on the Winnipeg and Saskatchewan Rivers, which account for about 22 and 10 per cent respectively. The Nelson River developments are expected to add nearly a million kilowatts to the system capability by 1980. It is estimated, however, that a further potential of nearly 6 000 megawatts of hydro-electric power remains undeveloped in northern Manitoba.

Manitoba's lakes provide one of the largest freshwater fisheries in the world. White fish and pickerel account for over 60 per cent of the total value of production; other species, in order of importance, are sauger, pike, tullibee, mullets, perch, sturgeon, goldeye and trout. Total fisheries production has

declined slightly during the past five years but price increases have led to increased value with 9.8 million kg produced in 1973-74 valued at \$5.2 million, 9 million kg in 1974-75 valued at \$5.3 million and 8.7 million kg in 1976-77 valued at \$7.5 million. The fishery involves a large number of people, (2 700 in 1975-76), but the industry faces substantial economic rationalization pressures which include low prices in relation to increasing production costs, higher transportation costs and low income returns. These pressures may require integrated measures to improve the efficiency and scale of fishing operations, adjust resource management policies, and reassess the commercial viability of production in a number of regions.

The production value of Manitoba's fur resources is growing dramatically, as a result of rapidly escalating prices. Principal species harvested include beaver, muskrat, coyote, fox and mink. The outlook for the industry is promising, with strong fur prices, substantial untapped potential and a high level of industry-government developmental initiative.

2.2.2 Market Environment

Although the Manitoba economy is structurally diversified, it remains heavily dependent upon primary resource production, both in the actual output of primary products and through its processing, service and supply linkages to the resource-producing sectors within the province and the rest of western Canada. Since most of the output from the resource sector is below the capacity of the resource endowment, the major determinant of the level of output is the state of world commodity markets and the ability of Manitoba products to penetrate these markets. This is in turn heavily influenced by major institutions with key marketing and/or production roles.

In the context of world markets, Manitoba is but one supply source; Canadian requirements for most primary commodities produced by Manitoba are small in relation to total national production. Consequently success in international markets is necessary for sustained output of the province's primary resource products. The recent world surplus in the nickel industry emphasizes the degree to which primary resource production in the province is subject to external and largely uncontrollable influences. In turn, the level of primary resource exports has a strong influence on the performance of the non-resource producing sectors of the provincial economy. Farm cash income is regarded as a key indicator of economic performance for the provincial economy; when it is low, capital and consumption expenditures tend to be restrained, first in the agricultural sector, and second throughout the provincial economy as a result of the strong linkages to manufacturing and service industries.

The province's diversified manufacturing base grew from firms which arose to service the demands of growing prairie settlement in the late 1800s and early 1900s. Its western Canadian orientation has been retained, with the bulk of Manitoba's manufacturing shipments remaining in western Canada. The historical evolution of manufacturing in Manitoba underlines the fact that for many manufacturing and processing activities, a Manitoba location must be based on servicing, at least to some extent, extraprovincial markets. Although Manitoba is located away from the more densely-populated regions of Canada and the United States, a diversified manufacturing base has been built on firms serving provincial, regional and increasingly international markets.

Recently, changes have been occurring in the market environment. Rapid growth in Alberta and Saskatchewan has encroached upon Manitoba's traditional service and supply functions. On the other hand, there has been a noticeable trend for Manitoba manufacturing firms to succeed in broader markets, usually because of unique, high-quality products and/or aggressive and skilled management. From 1967 to 1974, manufacturing shipments to international destinations grew from 5.5 per cent of total shipments to 9.2 per cent. These trends may be pointing out the directions for the future of Manitoba's manufacturing sector. Given the limits imposed by the small domestic (provincial) market for the goods produced by the province's manufacturing industry, Manitoba entrepreneurs will have to make continuous efforts to retain regional markets and expand national and international ones in order to maintain and enhance the province's industrial base.

2.2.3 Human Resources

Between 1870, when Manitoba was incorporated, and 1901, the population grew rapidly from 25 228 to 255 211 people. As a result of an active immigration program the population reached 365 688 by 1906. Between 1916 and 1921 the population increase was, for the first time, below the natural increase. This trend continued during the 1930s and 1940s. Since then Manitoba's population has grown steadily, but because of a trend to out-migration in the 1960s and 1970s, the growth rate has been lower than the rate of natural increase. During the late 1960s and early 1970s, it grew at approximately one-half the rate at which the national population was growing, and as a result Manitoba's share of Canada's population continued to decline.

Preliminary Statistics Canada estimates for 1978 give Manitoba a population of 1 031 000. During the 1970s, Manitoba's population increased at an average annual growth rate of 0.6 per cent in comparison to an average annual growth rate of 1.2 per cent nationally; this resulted in a decline of Manitoba's proportion of Canada's population from 4.6 per cent in 1971 to 4.4 per cent in 1978. The growth that has occurred in Manitoba's population during the last decade has been largely concentrated in Winnipeg and the larger urban centres in rural and northern Manitoba. In 1976, 70 per cent of the Manitoba population lived in urban centres.

Net out-migration to other provinces has been one factor restraining Manitoba's population growth since 1961. There are indications that in-migration has declined and out-migration has increased in the past year, with the end result being a projected net out-migration in 1978 of some 10 493 people.

Since the early economy was based almost exclusively on agriculture, for many years the population was predominantly rural. However, due to changing agricultural technologies, there has been a shift from farm residence and from smaller communities to larger urban centres. In 1871, 95 per cent of the population lived in rural areas; by 1951 the proportion in rural areas fell below 50 per cent, and in 1971 no more than 30 per cent lived in rural areas.

As rural population declined, urban population grew. Historically, Winnipeg has dominated the province's population distribution. As early as 1911 Winnipeg accounted for nearly 40 per cent of the province's population; by 1961 its population totalled 476 000 or 52 per cent of provincial inhabitants. Since 1971, Winnipeg's share of the population has continued to grow: this trend is also evident in larger centres such as Brandon, Dauphin, Thompson, Flin Flon, The Pas, Selkirk, Portage la Prairie and Steinbach, all of which provide a relatively wide range of services.

The population of Manitoba consists of a mosaic of ethnic groups which makes Manitoba one of Canada's most culturally diverse provinces. The linguistic impact of immigration is obvious: 26.8 per cent (as compared with a national proportion of 13 per cent) of the population reported a mother tongue other than English or French. The other major cultural backgrounds include German, Ukrainian, Polish, Indian (of the Athabaskan, Algonkian and Siouan linguistic groups) and Italian. This diversity of cultural heritage is not limited to

the large urban centres but is dispersed throughout rural areas of the province. Manitobans of British descent are evenly distributed in the south. There are many French communities along the Red River from Emerson to Winnipeg. Manitobans of German descent live in several different areas, the most notable of these being south-central Manitoba and around Winnipeg. Ukrainians are concentrated in eastern Manitoba and around Riding Mountain. The Icelandic segment of the population is centred around the original settlements of Arborg, Gimli, and the region west of Lake Manitoba. The Indians in Manitoba are divided into 55 bands that speak four languages: Cree, Saulteaux, Chippewa and Sioux. The Sioux are located in the southwest part of the province. The Chippewa live in the province's extreme northern area, while the Cree and Saulteaux occupy the central part of Manitoba. A notable characteristic of the province's Status Indian population is its rapid rate of growth which is more than twice the provincial average. Between 1970 and 1977 it accounted for 16 per cent of the growth in total provincial population, and as a result, constitutes an increasing proportion of the provincial population, accounting for 4.2 per cent in 1977.

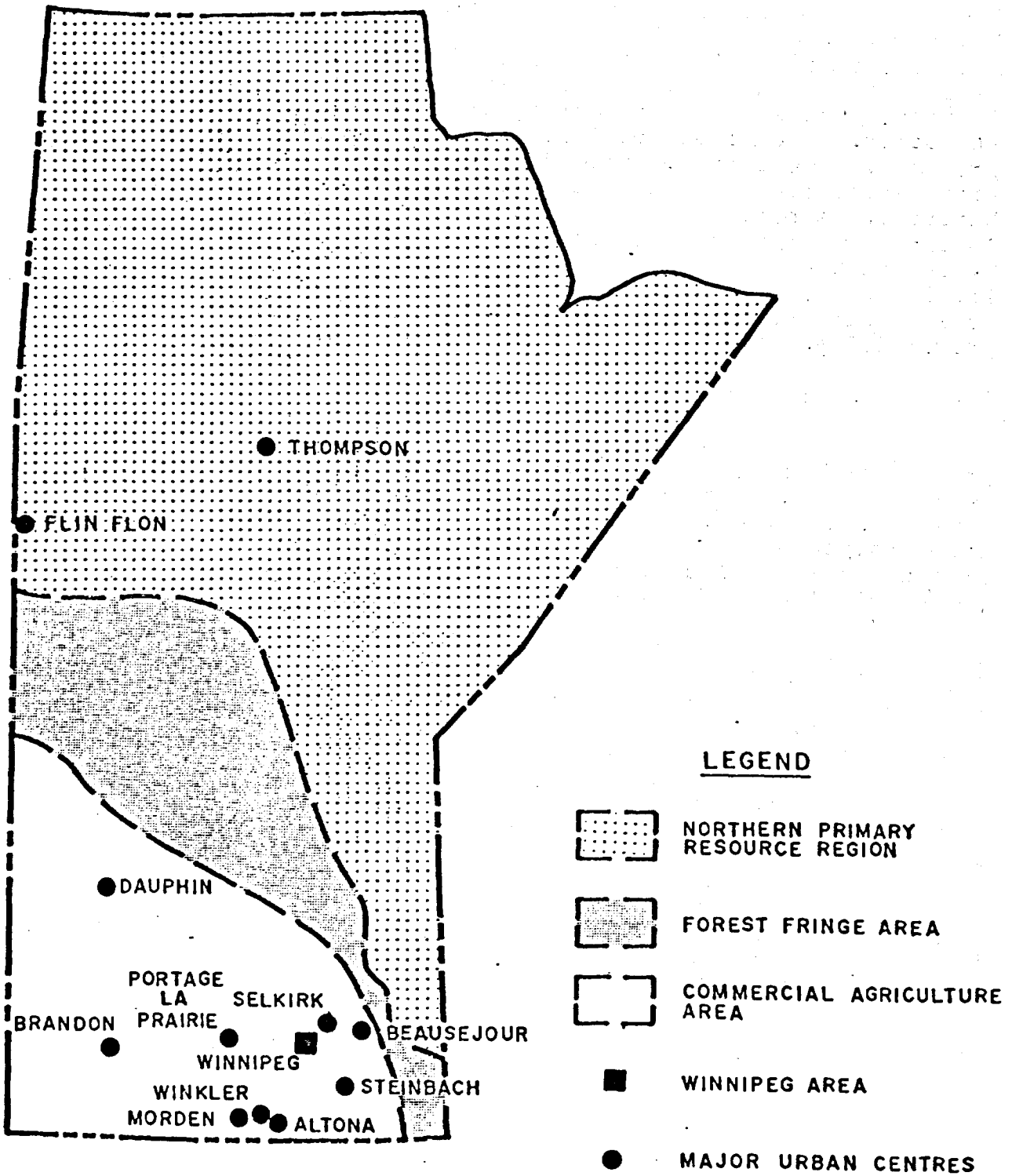
2.2.4 Sub-Provincial Distributions

Understandably, the province's factor endowments have profoundly influenced the pattern of economic activity. This is reflected in the location of resource harvesting, processing and service activities. In broad terms it is possible to identify three components of the Manitoba economy: an urban, industrial region; an agricultural region; and a northern primary resource (non-agricultural) region (see Chart 2.3).

The urban industrial region is dominated by Winnipeg, a major urban centre in which secondary industrial activities and financial, professional and other tertiary sector activities are concentrated. The urban influence of Winnipeg extends throughout Manitoba and is observable in the market for higher order services and the most extensive and diversified job market in the province. Winnipeg's predominance is illustrated by its 76 per cent share of provincial manufacturing employment, its 70 per cent of provincial manufacturing plants, its 80 per cent of manufacturing shipments and its 55 per cent of Manitoba's total population. The urban structure in Manitoba is thus significantly different from the other prairie provinces where two urban centres dominate the provincial urban structures.

Chart 2.3

REGIONS OF MANITOBA



A large proportion of the economic activity in Winnipeg is dependent upon activity in other parts of its trading areas. Nowhere is this more apparent than in the agricultural sector where Winnipeg contains a wide array of enterprises and institutions linked to the farm economy through processing, transportation, marketing and other service and supply functions. A clear understanding of the fact that Manitoba is a complex network of communities which are dependent upon each other for viability and progress is a prerequisite for assessing the province's economic prospects. Indeed, the relatively modest outlook for Winnipeg's growth is a reflection of the stable but unspectacular prospects evident at this time in the rural agricultural and northern resource regions.

Generally, the agricultural region can be classified into two groups: the commercial agricultural area and the agricultural fringe area. Within the commercial agricultural area there is a tradition of commercial farming and highly productive use of land in enterprises that are sensitive to national and international market demands. The agricultural fringe area, generally conceived to be the area of transition from prairie to Precambrian Shield, is marked by substantial economic disparity that can be traced to early settlement policies which assumed that all prairie land area had equal economic production capability. While there is some land with high capability within the general agricultural fringe area, a major proportion of the fringe area land has limited productive capability which is reflected in low levels of income, high unemployment, and low rates of participation in the broader range of economic activities. Because of the mixed resource base in these areas of transition, those with resource activities other than agriculture, such as logging, trapping and recreation/tourism often have the largest economic potential.

In the agricultural region there is a distinct urban community system with several important regional centres around which development has slowly evolved and focused. These centres are Brandon in the southwest, Dauphin in the northwest, Selkirk in the Interlake, Steinbach and Beauséjour in eastern Manitoba, the Pembina Triangle -- Altona, Winkler and Morden -- in the south-central region and Portage la Prairie in the central region. Generally, these centres are reinforced in their regional role through the commonality of social, political, economic and administrative factors. These major centres are complemented by a number of smaller agricultural trade centres which provide the services: these include agricultural supplies, machinery, repairs, educational services, financial services, and others.

The northern primary resource region and the forest fringe area encompass the major geographical portions of Manitoba. They are characterized by economic activities based upon natural resource extraction -- mining, forestry, hydroelectric development, fishing, trapping -- and government services. There is a sharp contrast between the social and economic circumstances of the northern single-industry urban communities on one hand and the remote, largely native settlements on the other. The urban north is made up of relatively modern communities having a full range of urban services including fire protection, police, hospitals, sewers and a water supply. It also has developed transportation and communication networks which provide convenient links with other major communities. The community structures of the non-urban or remote north have limited or non-existent tax bases, small populations, and geographical remoteness. These factors result in a lack of services such as a central water supply and sewers, garbage collection, fire protection, and hospitals, and in less-developed transportation and communication services, both within the community and with other centres. The majority of the population of remote communities is of native origin, and lifestyles are closely related to the natural environment.

Also, in contrast to both the urban north and the southern areas, the population of the remote north is growing at almost double the rate of the province as a whole. Approximately 50 per cent of the people are under 15 years of age, unemployment in remote communities has been estimated to be 60 per cent or higher and indicators of income, educational achievement and health fall short of levels found elsewhere.

Transportation systems integrate the three broad regions of Manitoba. Winnipeg, a nodal point in the national network, in terms of highway, rail and to some extent air transportation, is also the "hub" of the provincial transportation network (see Charts 2.4 and 2.5). In the rural south outside of Winnipeg the road network is mature, with future road investments largely related to improvements such as construction of four-lane divided highways, widening, general upgrading, overpasses and interchanges. In southern rural Manitoba air transportation has been less important. Recently, regularly scheduled air service linking the regional centres of Brandon and Dauphin with Winnipeg and the regional and national air transportation network has been re-established. In southern rural Manitoba the major transportation changes involve adjustments in the branchline network of the grain transportation system.

MAJOR HIGHWAYS IN MANITOBA

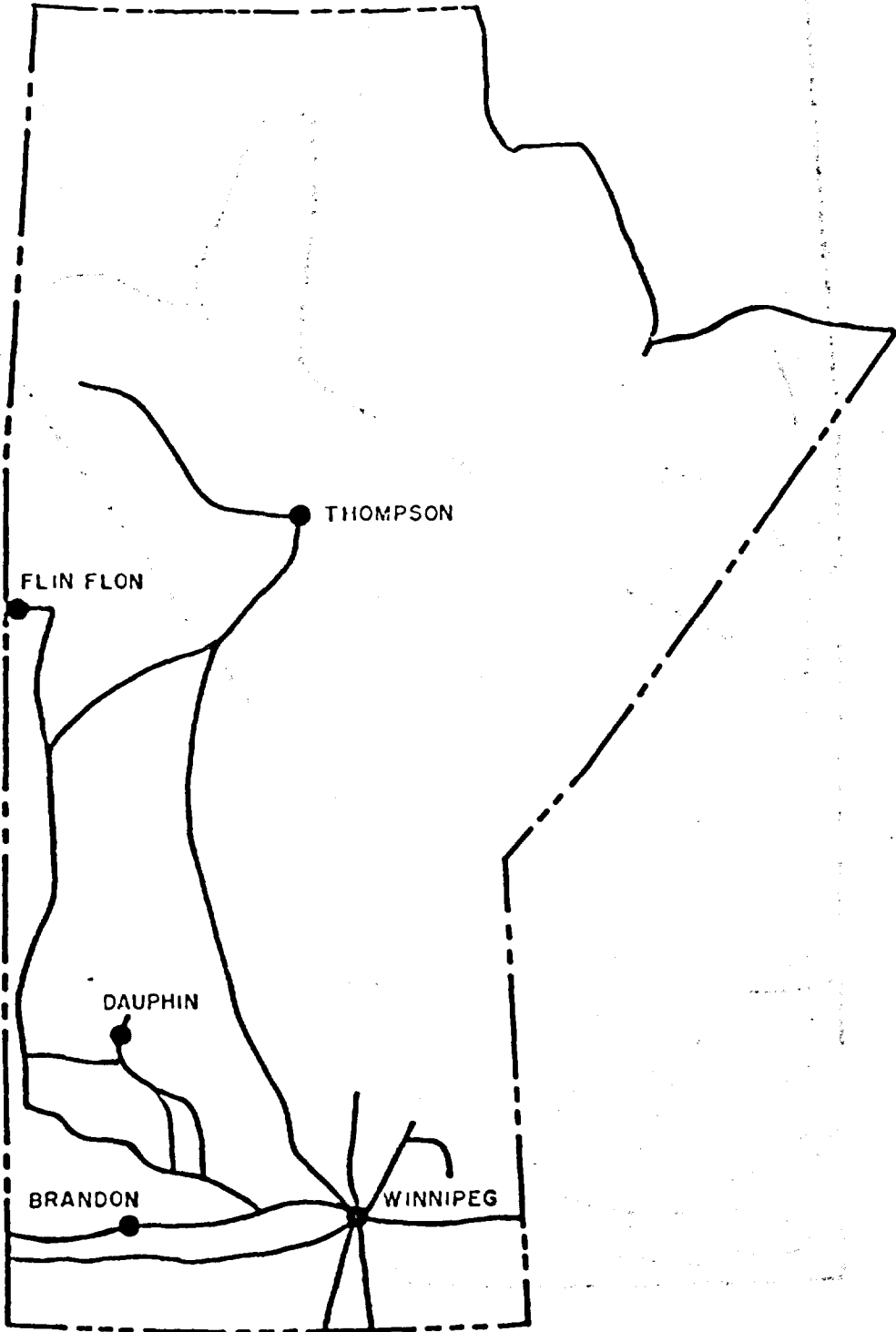
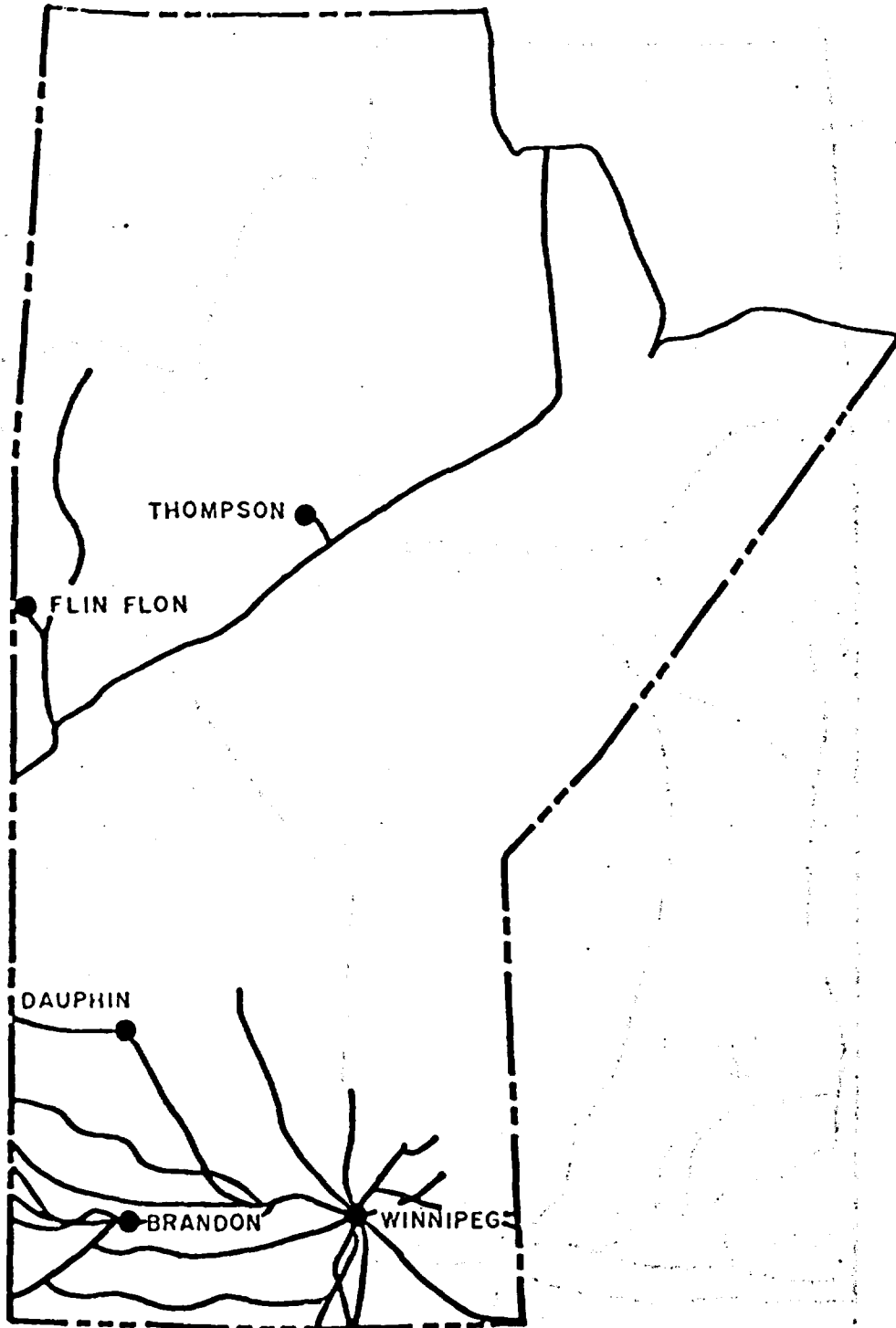


Chart 2.5

MAJOR RAILWAYS IN MANITOBA



The northern transportation system is being transformed through substantial additions to the provincial road network and major improvements in the quality of air facilities. These undertakings reinforce role of Thompson as a northern regional centre and provide year-round surface access to a number of previously isolated communities. In addition, a pattern of sub-regional community relationships appears to be emerging, with industrial centres functioning as sub-regional centres for communities to which they have year-round access: in some cases, it even includes a number of remote communities to which they have air access. The exception to this pattern occurs on the northeast and east side of Lake Winnipeg where there is no industrial centre and where year-round surface access is lacking; consequently Winnipeg effectively functions as the dominant centre through air linkages.

2.3 Overview of Economic Performance

2.3.1 General Indicators

An analysis of trends among key economic variables during the 1971-78 period indicates that there has been a steady erosion of Manitoba's relative position in the Canadian economy. Manitoba's population expanded at one-half the rate for Canada during the 1971-78 period while real output lagged behind Canada's growth by one-fifth and personal income and value-added increased at rates marginally below national performance. During the same period, employment opportunities in Manitoba expanded at only two-thirds of the national rate. Slow growth prevented the provincial economy from absorbing the full increase in the labour force and as a result the level of unemployment increased, although this was moderated somewhat by a high level of net out-migration. Manitoba's share of new capital investment in Canada declined during the 1971-78 period, particularly in the manufacturing sector. A more significant shift in Manitoba's investment pattern occurred during the earlier 1966-77 period when there was a major swing from private sector manufacturing investment to public sector utilities investment. Preliminary data for the 1977-79 period suggest an increase in manufacturing investment of 50 per cent and a decline in utilities investment of 25 per cent.

Chart 2.6 demonstrates that the province's share of real output, population, personal income, value-added, employment and investment has declined steadily throughout the 1970s. This is not to suggest that there has been no growth among these variables but rather that this growth has not kept pace with the

rest of Canada. Therefore, for a province that has traditionally performed at the Canadian average, Manitoba's position appears to be falling below this level in the 1970s.

CHART 2.6

MANITOBA'S PROPORTION OF CANADIAN ECONOMIC ACTIVITY

	% 1971	% 1978
Real Domestic Product	4.24	4.03
Population	4.58	4.39
Personal Income	4.30	4.07
Value-Added	4.29	4.04 ¹
Employment	4.67	4.41
Capital Investment	4.02	4.09

¹ Data projected from 1977 to 1978

Personal income in Manitoba has been below the national average during the past eight years. Total provincial personal income was \$3 192 million in 1971 and \$4 396 million in 1978 in constant 1971 dollars, a compound annual real growth rate of 4.7 per cent. In some years the gains were as high as 10 per cent, though in the past two years they have been below 1 per cent. On a per capita basis, again in 1971 dollars, personal income increased by 32 per cent, from \$3 231 in 1971 to \$4 256 in 1978, a compound rate of 4 per cent annually. Compared to national figures, however, per capita income declined from 94.1 per cent of the Canadian level in 1971 to 92.6 per cent in 1978. It appears that when the national economy expands rapidly the Manitoba economy records more modest gains, and when the national economy slows the provincial economy does not contract to the same extent.

An analysis of value-added data for the 1971-78 period indicates that the Manitoba economy has been more dependent upon the output of its service sector than has the national economy. This is largely due to the fact that both Manitoba and its

capital city, Winnipeg, have traditionally acted as a major service centre for the western provinces. In 1978, for example, the service sector in Manitoba accounted for 68 per cent of provincial output as compared to 61 per cent at the national level. Obviously, the reverse is true for the goods-producing sector.

2.3.2 Labour Market

Due to a more modest rate of real output growth in the provincial economy, Manitoba's labour force and employment both expanded during the 1970s at annual rates that were approximately two-thirds of those achieved at the national level. This slower growth prevented the provincial economy from absorbing the full increase in the labour force and as a result the level of unemployment increased, although this was moderated somewhat by out-migration. Employment opportunities in Manitoba fell from 4.7 per cent of the national total in 1971 to 4.4 per cent in 1978.

During the 1971-78 period, the provincial labour force increased by 69 000: from 402 000 to 471 000. With employment increasing by 61 000 to 440 000, the number of unemployed in Manitoba increased by 8 000 to 31 000 or from 5.7 per cent to 6.5 per cent of the labour force. This compares with a national unemployment rate of 6.2 per cent and 8.4 per cent in 1971 and 1978 respectively. Although the labour force increased at an average of 10 000 annually between 1971 and 1978, this average increase obscures significant variations in year-to-year changes; for example, in 1978 the labour force grew by 15 000 to 471 000, the largest increase in the eight-year period, whereas in 1975 it increased by only 2 000 to 437 000, the smallest gain in the eight-year period.

Chart 2.7 shows that employment in Manitoba's goods-producing sector increased by 15 per cent during the 1971-78 period, fuelled by a strong performance in manufacturing and other primary sectors and moderated to a certain extent by a marginal decline in agricultural employment. On a sectoral basis, employment in Manitoba's agricultural sector followed the national trend, declining marginally over the eight-year period from 46 000 in 1971 to 44 000 in 1978. In the manufacturing sector employment increased by 8 000 to 59 000, for a total gain of 16 per cent over the entire 1971-78 period. Construction employment increased by nearly 50 per cent during the eight-year period to 26 000 in 1978, or at an average annual rate of 5.6 per cent as compared to 3.8 per cent at the national level. The construction employment growth was buoyed by the sharp increase in residential construction and public sector projects during the early 1970s.

CANADA/MANITOBA EMPLOYMENT CHANGES BY SECTOR
(000)

	Manitoba			Canada		
	1971	1978	% Change	1971	1978	% Change
Agriculture	46	44	-4.3	492	473	-3.9
Other Primary Industries	4	8	100.0	221	258	16.7
Manufacturing	51	59	15.7	1 766	1 956	10.8
Construction	<u>18</u>	<u>26</u>	<u>44.4</u>	<u>489</u>	<u>632</u>	<u>29.2</u>
Total Goods-Producing Sector	119	137	15.1	2 968	3 319	11.8
Transportation, Communication	44	48	9.1	696	857	23.1
Wholesale, Retail Trade	65	78	20.1	1 310	1 738	32.7
Finance, Insurance, Real Estate	18	23	27.8	383	546	42.6
Community, Business Services	99	124	25.3	2 087	2 808	34.5
Public Administration	<u>26</u>	<u>31</u>	<u>19.2</u>	<u>515</u>	<u>704</u>	<u>36.7</u>
Total Service Industries Sector	252	303	20.0	4 991	6 653	33.3
Total Goods-Producing and Service Sector	<u>371</u>	<u>440</u>	<u>18.6</u>	<u>7 959</u>	<u>9 972</u>	<u>25.3</u>

Employment in Manitoba's service sector expanded by one-fifth or approximately 50 000 positions between 1971 and 1978 with the strongest increase occurring during the 1973-76 period. The community/business services sector accounted for 25 000 of these new positions, the wholesale/retail trade for over 10 000, while the remaining 15 000 positions were distributed fairly evenly at approximately 5 000 each among the three remaining categories of finance, insurance and real estate; public administration; and transportation, communications and other utilities. On a national basis, the growth in the service sector between 1971 and 1978 was distributed in an almost identical pattern to that of Manitoba, but the magnitude of that growth was substantially greater, 20 per cent for the province and 33 per cent for Canada.

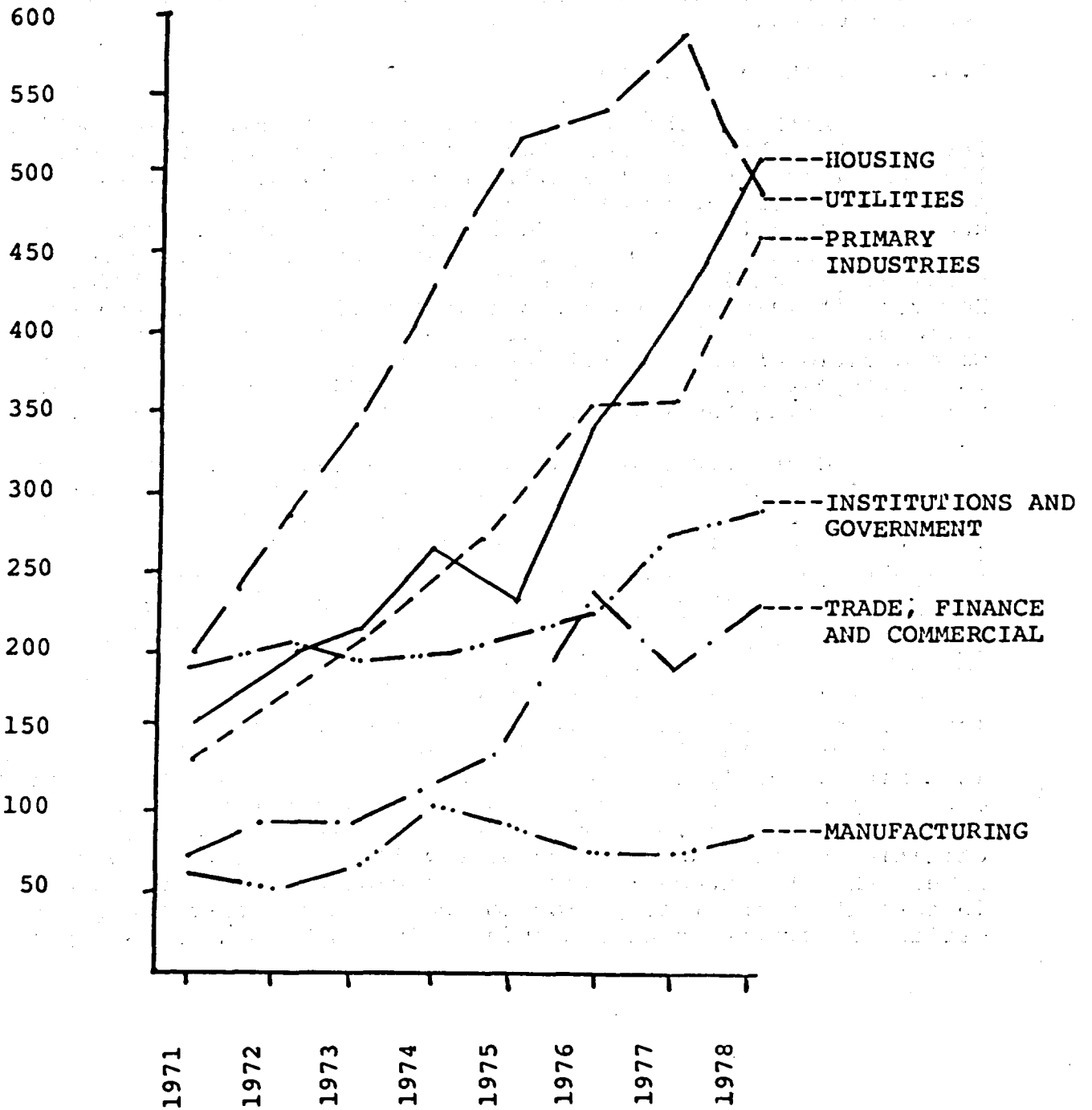
2.3.3 Investment Climate

Although the annual level of total private and public investment in Manitoba more than doubled in money terms between 1971 and 1978 (from \$1 075 million to \$2 650 million), the province's share of total annual investment in Canada remained unchanged at 4.1 per cent. During this same time frame, Manitoba's share of new capital investment in Canada increased marginally from 4 per cent in 1971 to 4.1 per cent in 1978. However, it must be recognized that the 1971 capital investment ratio of 4 per cent was unusually low. The average Manitoba-to-Canada ratio of new capital investment was 4.6 per cent during the five-year period between 1969 and 1973; it declined to 4.1 per cent during the five-year period between 1974 and 1978.

Chart 2.8 illustrates that new capital investment in Manitoba's manufacturing sector remained fairly flat during the 1971-78 period and actually declined in relation to total capital investment in Manitoba. When inflation is factored into the account, manufacturing capital investment is actually below levels achieved in the early 1970s. An industry-by-industry breakdown suggests that a substantial shift in Manitoba's capital investment pattern occurred over the 1966-77 period, with a major swing from private sector manufacturing investment to public sector utilities investment. For example, although the annual level of manufacturing capital investment in Canada more than doubled during the 1966 to 1977 period and new capital investment in Manitoba nearly tripled, the annual level of manufacturing capital investment in the province remained relatively unchanged. During the same period new capital investment in the province's utilities sector increased by nearly 500 per cent. It would appear that the dramatic increase in public sector utilities investment during this period to some extent offset the relative decline in private sector manufacturing investment. As expected,

Chart 2.8

NEW CAPITAL INVESTMENT IN MANITOBA BY SECTOR
(CURRENT \$)



the housing sector experienced a dramatic increase in new capital investment during the decade of the 1970s; this was followed by more moderate but steady growth in institutions and government departments and the trade, finance and commercial sector.

Although it is too early to draw conclusions, revised investment intentions data for 1978 suggest that the pre-1970s patterns of new capital investment in Manitoba may be re-emerging. New capital investment in Manitoba increased by \$143 million or 8 per cent in 1978, with the goods-producing industries accounting for three-quarters of this increase. Manufacturing investment was up 11 per cent while primary industries rose by a dramatic 27 per cent. At the same time, utilities were the only sector to experience a decline in new capital investment in 1978 with a fall of 17 per cent. Although the housing sector experienced a dramatic increase in 1978, it appears to have peaked and is expected to decline substantially in 1979. On the other hand, preliminary indications are that new manufacturing investment may increase by approximately 34 per cent in 1979.

2.3.4 Sectoral Review

The data in Chart 2.9 show that the agricultural and other primary goods-producing sectors in Manitoba accounted for approximately 12 per cent of total provincial employment in 1978; the manufacturing and construction sectors accounted for a further 19 per cent; and that the tertiary sector employed the remaining 69 per cent. Real domestic product (RDP) data for the same year closely parallel the employment pattern, with the above sectors accounting for 13 per cent, 19 per cent and 68 per cent of RDP respectively. The only major variation occurs in the primary goods-producing sector where agriculture accounts for 7 per cent of RDP but 10 per cent of employment. Forestry, fishing, trapping and mining account for 2 per cent of RDP and almost 2 per cent of employment. Utilities accounted for 4 per cent of RDP in 1978. Manufacturing accounts for 14 per cent of RDP and 13 per cent of employment, with construction accounting for the remaining 6 per cent in both cases.

As the real output and employment data in Chart 2.9 indicate, the division between the goods-producing and service sectors in Manitoba remained relatively unchanged during the 1971-78 period. The construction industry accounted for a smaller proportion of real output in 1978, even though its share of employment increased moderately between 1971 and 1978. The fishing, trapping and forestry sectors retained their share of provincial output during this eight-year period, but the mining sector share decreased substantially. The manufacturing share of

CHART 2.9
STRUCTURE OF THE MANITOBA ECONOMY

Sector	Employment		Real Domestic Product	
	1971 %	1978 %	1971 %	1978 %
Agriculture	12.4	10.0	7.6	6.6
Fishing			0.1	0.1
Forestry	1.1	1.8	0.1	0.1
Mining			3.5	2.0
Utilities			3.3	4.3
Manufacturing	13.7	13.4	13.0	13.8
Construction	<u>4.9</u>	<u>5.9</u>	<u>6.1</u>	<u>5.6</u>
TOTAL GOODS-PRODUCING SECTOR	32.1	31.1	33.7	32.5
Transportation/Communications	11.8	10.9	13.4	13.6
Wholesale, Retail Trade	17.5	17.7	13.4	13.6
Finance, Insurance and Real Estate	4.9	5.2	11.7	13.6
Community, Business Services	26.7	28.2	19.6	19.1
Public Administration	<u>7.0</u>	<u>7.0</u>	<u>8.2</u>	<u>7.5</u>
TOTAL SERVICE INDUSTRIES SECTOR	67.9	68.9	66.3	67.5
TOTAL GOODS AND SERVICE SECTORS	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

provincial employment and output remained relatively unchanged; the agricultural sector experienced a decline in activity, with its share of employment declining more significantly than its share of output; while utilities increased their share of the provincial output quite substantially.

In summary, the goods-producing sector in Manitoba experienced a marginal decline in its share of total provincial real output and employment during the 1971-78 period. The service sector experienced a corresponding increase in real output and employment at the provincial level during the same period and continues to dominate the economy with 69 per cent of employment and 68 per cent of real output.

(a) Agriculture

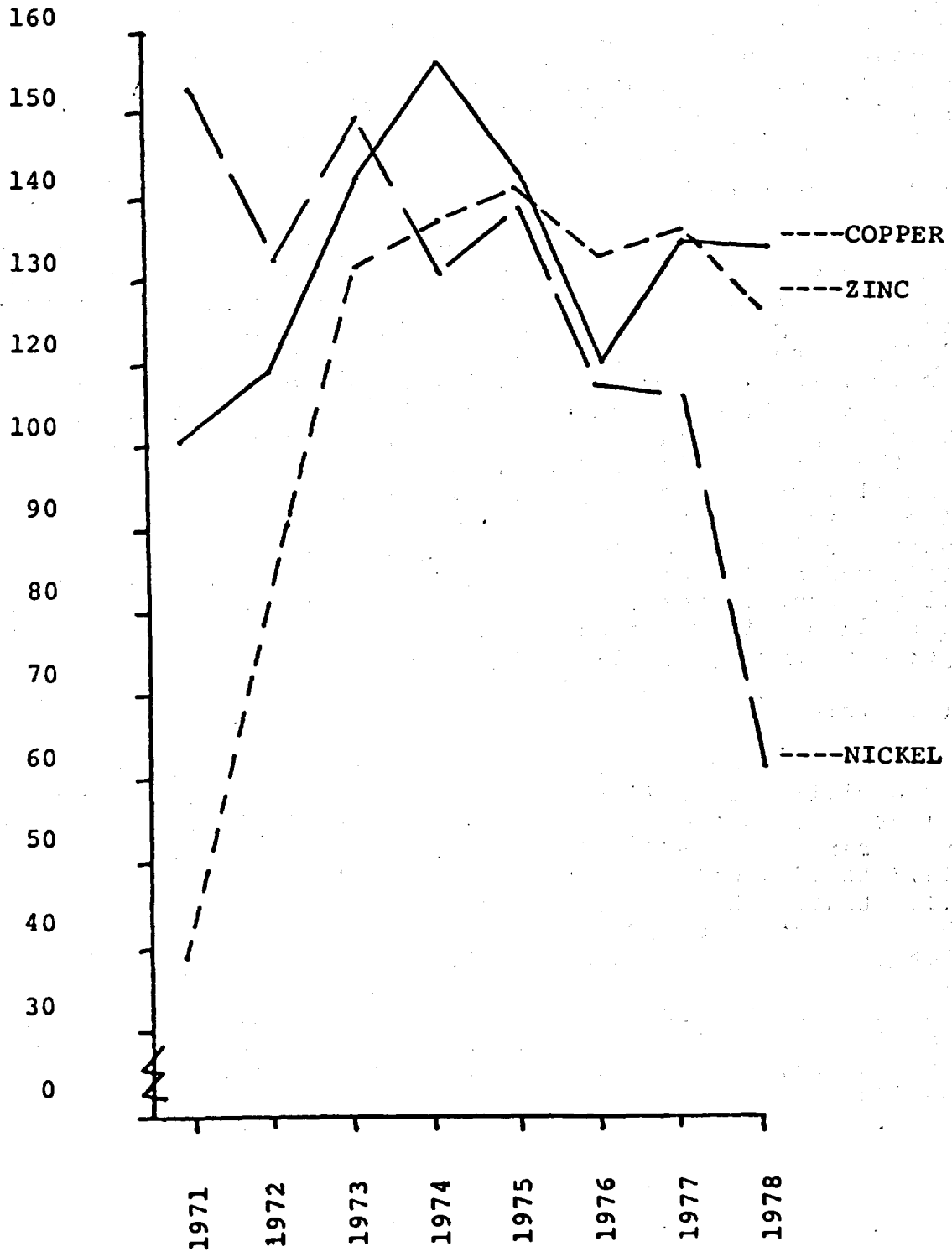
Although the volume of agricultural output in Manitoba in 1978 was only 11 per cent above the 1971 level, there were substantial fluctuations during the eight-year period, ranging from a 35 per cent increase in 1971 to an 18 per cent decline in 1974. Farm cash receipts were up substantially from \$381 million in 1971 to \$1 130 million in 1978, an increase of approximately 200 per cent, or an average annual increase of 16.8 per cent. This compares with an increase of 162 per cent to \$11 887 million at the national level during the same time period, or an average annual increase of 15 per cent. As in the case of real output, farm cash receipts fluctuated dramatically from year to year, with the 1971-75 period marked by fairly substantial gains, followed by a decline in 1976, stagnation in 1977 and a 25 per cent increase in 1978. Despite rising input costs, net farm income in Manitoba increased at an average annual rate of 22 per cent during the 1971-77 period.

(b) Mining

After a period of fairly steady growth from \$330 million in 1971 to \$530 million in 1975, the value of mineral production in Manitoba declined in 1976, recovered temporarily in 1977 and then dropped a further 18 per cent in 1978 to \$464 million, its lowest level since 1973. Chart 2.10 illustrates the fact that nickel production, which traditionally has accounted for 50 per cent of the value of the province's total mineral output, has declined steadily since 1971 to its lowest level for the decade in 1978. Recorded copper production, which accounts for approximately 20 per cent of the value of total provincial mineral output, declined steadily to 54 000 tonnes during the 1974-76 period but increased significantly to 60 000 tonnes in 1977 and maintained this level of output in 1978. Increased prices resulted in an 8 per cent increase in the

Chart 2.10

VOLUME OF METAL OUTPUT IN MANITOBA



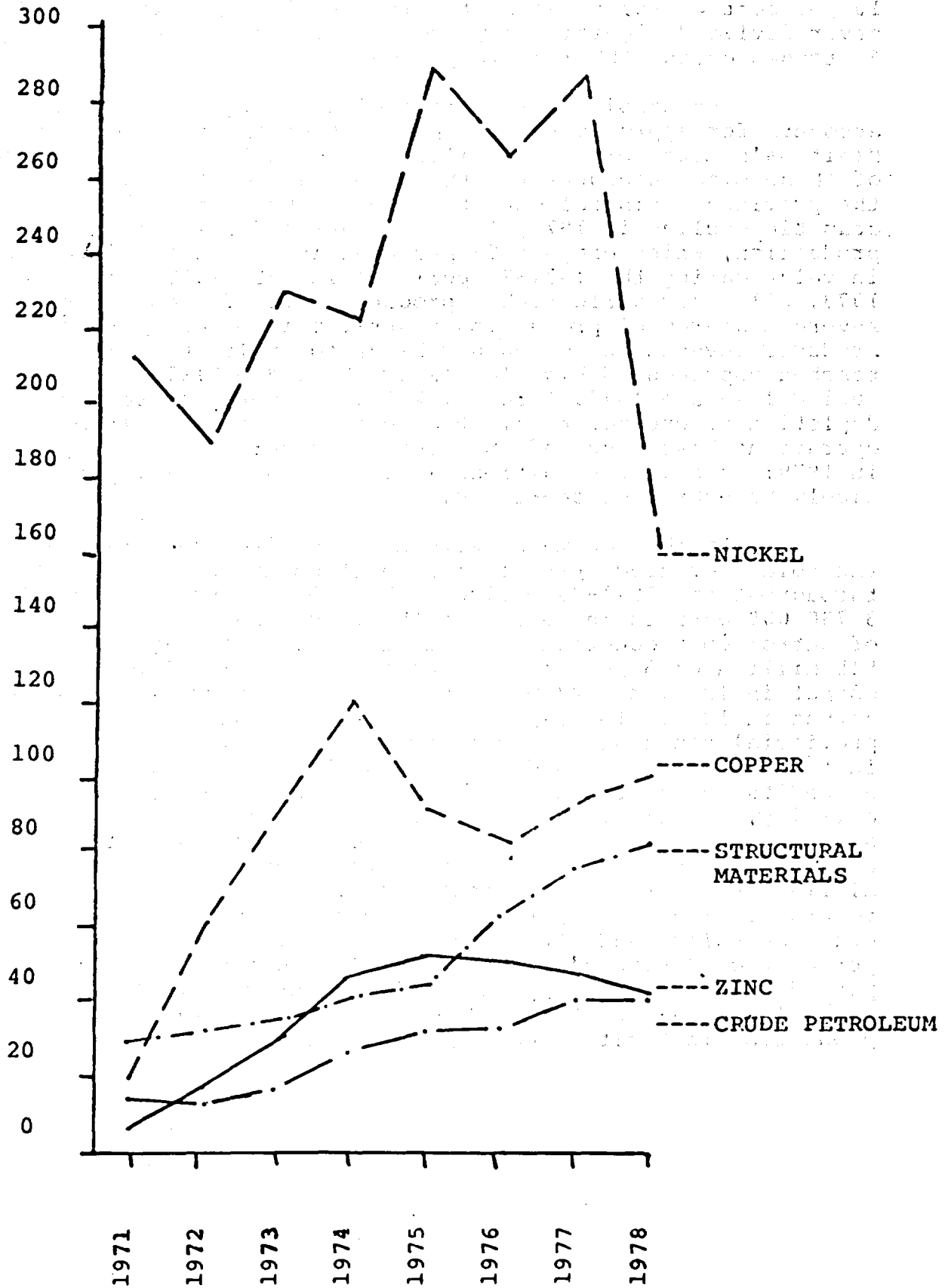
value of production in 1978 even though its volume had remained unchanged. Zinc production, which accounts for approximately 10 per cent of the value of total mineral output in Manitoba, has never deviated significantly from an average annual output of 61 tonnes during the 1973-78 period.

The combined production of nickel, copper and zinc accounts for approximately 95 per cent of the total output of Manitoba's metal mines. As illustrated in Chart 2.11, the output of these mines accounts for the major part of the total value of the province's mineral output in 1971; but there is a dramatic decline in 1978, led by a marked decline in nickel production, which dropped 53 per cent in volume and 23 per cent in value during the 1971-78 period. In late 1977 and throughout 1978, all major world nickel producers were forced to undertake severe measures of production restraint in order to reduce producer inventories which had begun to build up in 1975 and reached unprecedented high levels by the end of 1977. In Manitoba during 1976 and 1979, three nickel mines were closed because of a depletion of ore reserves. Production cutbacks at Inco operations have resulted in a return to normal inventory levels in 1979; as market conditions improved, idle capacity has been slowly brought back on-stream.

In the non-metal segment of Manitoba's mining economy the volume of crude petroleum production has declined each year throughout the 1971-78 period from 5 605 000 barrels in 1971 to 3 730 000 barrels in 1978. At the same time, however, the value of petroleum production has increased consistently from \$15 million or 5 per cent of Manitoba's total value of mineral output in 1971, to \$44 million or 9 per cent of its total mineral output in 1978. In response to a fairly significant growth in provincial construction activity during the 1970s, particularly in terms of northern hydro projects, highways, infrastructure expenditures and residential and commercial construction activity, especially in major centres, there has been a fairly significant increase in the mining of structural materials such as cement, sand and gravel. Structural materials rose from \$28 million or 8 per cent of Manitoba's total mineral output in 1971 to \$83 million or 18 per cent in 1978. In effect, the output of crude petroleum and structural materials, which averaged only 18 per cent of Manitoba's total mineral output over the 1971-78 period accounted for approximately 62 per cent or \$83 million of a total increase of \$134 million in the value of mineral production in Manitoba during this period.

Chart 2.11

VALUE OF MINERAL OUTPUT IN MANITOBA
(Current \$)



Optimism in the mining sector is reflected in a number of positive developments. There have been new capital expenditures as well as signs of improving employment and output levels since the beginning of 1979. The \$35-million underground copper-zinc development by Sherritt Gordon Mines Limited at its Ruttan Lake mine began in 1979. Also coming on-stream was the new Hudson Bay Mining and Smelting Co. Ltd. concentrator near Snow Lake, an investment of \$33 million which has provided 50 new jobs. Construction of the new mill should lower overall costs and could bring known marginal deposits in the Snow Lake area into production. In addition, HBMS is currently involved in a pre-production and development program at its Spruce Point deposit, located 100 kilometres southeast of Flin Flon. Another cause for optimism is the fact that the total acreage of claims, claim blocks and permits staked during the first six months of 1979 have exceeded the total staked during all of 1978.

(c) Manufacturing

Between 1971 and 1978 the real output of Manitoba's manufacturing sector increased by 36 per cent: this represents a growth rate two percentage points greater than the comparable national rate. As a result, Manitoba's proportion of Canada's manufacturing real output increased from 2.4 per cent in 1971 to 2.5 per cent in 1978. Both Manitoba and Canada as a whole experienced a slowdown in manufacturing activity during the 1975-77 period: Manitoba's manufacturing output fell 1 per cent below the 1974 levels while the nation's manufacturing output rose less than 2 per cent over the 1974 levels.

Employment in Manitoba's manufacturing sector has basically followed the same trend as that of real output with some variations in phasing due to production leads and lags. Employment increased from 51 000 in 1971 to 65 000 in 1975; it declined to 60 000 in 1976; fell further to 54 000 in 1977; and finally recovered to 59 000 in 1978, a total approximately 16 per cent higher than the 1971 level. Canada's manufacturing employment increased by 11 per cent during the same period.

Although Manitoba's manufacturing sector experienced a greater increase in real output and employment than Canada as a whole during the 1971-78 period, the annual level of new capital investment remained relatively unchanged at the provincial level while it more than doubled at the national level. It should be noted that investment is usually more indicative of future rather than past output trends. While the level of new capital investment in Manitoba's manufacturing sector in 1979 is the same as the level attained in 1970 it has increased by approximately 50 per cent during the 1977-79 period.

Manufacturing shipments in Manitoba increased at an average annual rate of 13 per cent during the 1971-78 period, from \$1.3 billion in 1971 to \$3.4 billion in 1978. The wood products and machinery industries had average annual increases in the 20-25 per cent range, to \$96 million and \$272 million respectively; metal fabricating, non-metallic mineral products and chemical products, in the 15-19 per cent range, to \$304 million, \$105 million and \$102 million respectively; food and beverage, clothing, furniture, printing and publishing, primary metal and electrical products, in the 10-14 per cent range, to \$1 090 million, \$208 million, \$68 million, \$148 million, \$159 million and \$93 million respectively; textiles, in the 5-9 per cent range, to \$24 million. It is interesting to note that the capital-intensive durable goods experienced the largest gains in shipments during the 1971-78 period, while the consumer non-durables experienced the smallest.

(d) Construction

Real output in Manitoba's construction industry has declined steadily from its peak in 1976. Output in the construction industry at the national level has followed the same trend as Manitoba in recent years but the declines have been far less severe. In the 1971-75 period, prior to the 1976 peak in construction activity, the industry in Canada did not experience any declines in real output whereas the construction industry in Manitoba experienced three fairly strong declines. Despite real output declines in various years throughout the 1971-78 period, however, the level of employment in the construction industry in Manitoba only declined in 1977 and then moderately. During the same time period employment in the Canadian construction industry only experienced a marginal decline in 1977 and 1978.

There was a substantial slowdown in Manitoba industrial construction activity during 1978 which reflected in part a prolonged construction strike during the summer and a postponement in northern hydro-electric power development. However this decline was offset to a considerable extent by a dramatic increase in dwelling unit starts which were up 30 per cent: from 9 369 units in 1977 to 12 221 units in 1978. The most significant increases were recorded by two-family and apartment units -- up 71 per cent and 62 per cent respectively -- while row housing increased by a more moderate 17 per cent and single detached dwellings actually declined by 4 per cent. Although the overall level of new construction declined in 1978, the commercial building sector showed surprising strength, especially in new building, which included banks, department stores and a range of smaller retail outlets.

(e) Service Sector

Although the real output of Manitoba's service sector has increased steadily throughout the 1971-78 period, the rate of increase has been declining from an average annual increase of 5 per cent during the 1971-74 period to 3 per cent during the 1975-78 period. The same trend is evident at the national level, although the growth rates of Canada's service sector output are still above the provincial rates; they declined from an average annual rate of 6 per cent during the 1971-74 period to 4 per cent during the 1975-78 period. The provincial service sector output accounts for less than 5 per cent of the national service sector output, and its share actually declined marginally during the 1971-78 period.

Employment growth in Manitoba's service sector has followed the pattern of real output growth: it declined from an average annual rate of 4 per cent during the 1971-74 period to 2 per cent in the 1975-78 period. Employment in Canada's service sector also declined, from an average annual growth rate of 5 per cent in the 1971-74 period to 4 per cent in the 1975-78 period.

The transportation/communications, wholesale/retail trade, and finance, insurance and real estate sectors each accounted for approximately 20 per cent of Manitoba's service industry real output in 1978. The community/business services sector accounted for approximately 30 per cent and public administration for the remaining 10 per cent. With the exception of public administration, all sectors experienced an increase in RDP in 1978 ranging from a low of 1 per cent in the wholesale/retail trade sector to a high of 3 per cent in the transportation/communications sector. Real output in the public administration sector declined in 1978.

In money terms, the retail trade in Manitoba has not kept pace with growth at the national level during the 1972-78 period. Provincial retail sales rose by 84 per cent, from \$1.5 billion in 1972 to \$2.7 billion in 1978, while nationwide, they increased by 102 per cent, from \$34.1 billion in 1972 to \$68.9 billion in 1978. Retail trade in Winnipeg increased by 93 per cent during this period, from \$0.9 billion in 1972 to \$1.7 billion in 1978. A buoyant farm economy and manufacturing prosperity are providing recent impetus to retail sales in Manitoba.

2.4 Strategic Provincial Prospects to 1985

The diversity of the Manitoba economy will continue to allow a range of development opportunities contributing to a moderate rate of growth. There are relatively few major

development projects now on the horizon, but a number of sectors of the provincial economy have recently exhibited strength and business confidence appears to be improving.

Population trends suggest that Manitoba's average rate of population growth will remain well below 1 per cent and will be consistently below the national average. Economic buoyancy in the west, notably Alberta, will continue to attract Manitoba emigrants. Winnipeg will account for an increasing proportion of the province's total population. Marginal growth will occur in the 20 larger centres in rural Manitoba. In the north, growth in the industrial centres will be directly tied to the health of the resource sectors, but the total population will increase nevertheless because of the rapid growth of the population of Indian ancestry. This growing and highly visible population has unique developmental needs which are not likely to be met without extraordinary effort.

Agriculture will continue to be a key determinant of the economic performance of the province, and will reflect Canada's success in international grain markets. The trends of consolidation into larger farm units and of intensification of land use will continue. Grain production will continue to dominate but with increased cultivation of special crops where this is economically feasible. The livestock production base will be strengthened with a move towards an increase in the finishing of cattle. These developments will stabilize the employment base in rural areas, although the employment structure in agricultural areas may be altered somewhat. There will be a shift from farm owner/operators to farm employees and employment in activities servicing the increasingly intensive agricultural base. The major population centres in rural Manitoba will continue to be strengthened in their role as agricultural service centres by the growing demand for sophisticated agricultural services and adjustments in the rail transportation network.

Water development continues to be a major priority in improving the economic performance of both industrial and resource sectors. Because of the 1976-77 drought, an interim water development initiative is being explored to coordinate existing federal and provincial water supply development programs and to determine the longer term water development strategy needed to support economic expansion and buttress the performance of the economy during drought periods.

Prospects in the northern resource region are relatively stable. The forestry sector will continue to be important in the provincial economy, particularly from the sub-provincial perspective of employment generation in the northern and forest fringe regions of the province. Attention will be

focused on ensuring the successful operation of major plants at The Pas and Pine Falls; transportation and environmental protection are priority areas of concern. Further developments are constrained by the relative inaccessibility of the resource and the composition of the province's forests which contain a large proportion of species not commercially desirable for lumber and/or pulp and paper industries.

Exploration activity has increased substantially in the past year but as yet no major new mineral developments are projected to be brought on-stream over the next five years. Manitoba currently has a copper smelter, a zinc refinery, a nickel smelter and a nickel refinery. These facilities process most of Manitoba's copper, zinc and nickel concentrates as well as concentrates produced outside Manitoba. Investment in the immediate future is likely to be aimed at upgrading these processing facilities for greater efficiency. As market conditions improve, their expansion may be undertaken once their current capacity is fully utilized. The pegmatite deposits in the Bernic Lake/Winnipeg River area may provide for expanded output. Fishing and trapping will remain important as a vehicle for participation in economic activity in the forest fringe and northern regions of the province where few other options exist.

Manitoba's central location, its abundant hydro-electric power at stable and attractive rates, and a strong entrepreneurial tradition point to increased activity in the manufacturing sector. The capabilities of Manitoba firms suggest that growing markets in western Canada also provide opportunity for substantial expansion of manufacturing and service industries related to major western resource development projects.

Current indications are that the Manitoba economy in the 1980s will continue to be resource-based with secondary and tertiary activity in the province strongly oriented towards resource activities in western Canada through processing, service and supply linkages. A major factor in Manitoba's economic prospects over the medium-term would appear to be the degree to which the province is successful in integrating its economic and industrial structure with the growth dynamics in western Canada.

3. DEVELOPMENT PROBLEMS AND ISSUES

The province's factor endowments and their interaction with the world market environment will continue to determine broadly the performance and prospects for the Manitoba economy within its own constraints such as the structure of its labour force, its transportation linkages, its water supply and management, and its industrial structure. Aside from national considerations affecting all provinces such as fiscal, monetary and energy matters, some major economic issues surrounding Manitoba's future economic growth include the nature of Winnipeg's role in the province's overall economic development, future rail route and rate adjustments, the effect of the GATT negotiations, the effective utilization of the province's hydro-electric resources, and services to native people. These constraints and issues are all in areas in which public policy plays a key role. In the context of Manitoba, the fiscal position of the province is a factor which may affect the decision for and the outcome of public sector action in these areas.

3.1 Constraints

3.1.1 Structure of the Labour Force

Current medium-term projections indicate a growing demand for skilled labour throughout the western provinces. This trend could place increasing pressure on the Manitoba labour market, given major resource-related developments in the other western provinces. In particular, skill shortages could have adverse effects on attempts to strengthen and expand the province's manufacturing base.

While there may be skill shortages in Manitoba attributable largely to pressures of western Canadian economic expansion, there may also be difficult pockets of unemployment. This would reflect non-participation in the labour force, a problem most apparent in the northern and fringe areas where a large proportion of the population does not participate in the conventional labour market.

To help offset this constraint on provincial development, renewed emphasis will be required on the acquisition of transferable employment skills and basic skills which can lead to increased participation in the labour force within a sub-regional, provincial and interprovincial context.

3.1.2 Transportation Linkages

Historically, Winnipeg has functioned as the gateway to the west. The emerging western resources boom will simultaneously expand and strengthen east-west relationships: thus opportunities may arise for Manitoba to capitalize on growing movements along the east-west axis. This could lead to a resurgence of the city's entrepôt function. In this context Winnipeg's relationship to the national transportation networks is vital. Winnipeg is a logical mid-point from which transportation services for rail, highway and air modes could be provided to growing east-west traffic. In addition, an efficient transportation network will enable the growing western Canadian markets to be served from Manitoba which has the most diversified manufacturing base in the west.

On several occasions, Manitoba's highway linkages with Saskatchewan and the United States have been identified as being inferior to the systems to which they connect. Improvements to these linkages would enhance commodity shipments to out-of-province markets. Similarly, as part of improvements in the national grain handling network, key grain transportation arteries and facilities may need to be upgraded.

A final dimension of the transportation constraint is the transportation service capacity of Winnipeg. Traditionally, Winnipeg has been an important rail, air and road transport service centre. The retention and expansion of these activities will continue to be important to the Manitoba economy.

3.1.3 Water Constraints to Economic Development

The patterns of economic development of southern and central Manitoba are strongly influenced by the availability of water for domestic, industrial, agricultural and other purposes. Water is generally a scarce resource in the prairie zone of Manitoba. Winnipeg is currently serviced by a 175-kilometre aqueduct built in 1918 from Shoal Lake which is located at the Manitoba-Ontario border on the Winnipeg River system. While the current water supply capacity for Winnipeg is adequate, consideration has been given by the city of Winnipeg to the need for and timing of construction of a second aqueduct from the Winnipeg River system. Water supplies for other cities and major trading centres have been developed at suitable sites in the Red, Assiniboine and Souris River watersheds. In general, supplies for most centres have been adequate, but some centres are located in areas of sparse supply from either surface or ground water sources.

The performance of the provincial economy is strongly influenced by the availability and stability of potable water supplies. Adequate water supply is a key factor in strengthening and maintaining the vigour of secondary centres and providing locations for industrial sites and a broad range of commercial and other service facilities necessary to the growth and vigour of the primary resource sector. A major shortfall in precipitation over a one to two-year period results in serious municipal water supply problems and a decline in the output of the economy, particularly in agriculture and hydroelectric generation. Estimates of the impact of drought on the agricultural and forestry sectors suggest a dry period of moderate severity can result in losses of up to \$100 million. At the other extreme, floods such as those experienced this spring in the Red River Valley and other southern Manitoba locations can cause personal dislocation and hardship and result in major public and private costs.

3.1.4 Industrial Structure

One of the factors constraining Manitoba's economic development appears to be the lack of large firms in the province's industrial structure. The province is a microcosm of Canada's manufacturing sector and has been closely following the national trend to a declining proportion of small firms. In 1961, 85.6 per cent of manufacturing firms in Canada as a whole and 86.2 per cent in Manitoba had less than 50 employees; by 1974 this percentage had declined to 79.3 per cent of manufacturing firms for Canada and 80.5 per cent for Manitoba. However, it must be stressed that even though the province has almost the same proportion of large firms as Canada, it is the absolute number that is important, and Manitoba has a very limited number of firms with over 200 employees.

Large firms are important to the industrial structure of the economy because they provide the necessary "agglomeration" criteria for the efficient concentration of capital and skilled labour. A number of the larger firms in Manitoba today are "locally grown" establishments that have been developed by local entrepreneurs. They have developed their organizations through the active pursuit of export markets and many are selling their products on a world-wide basis. Examples of local establishments that have been highly successful in world markets include farm machinery and equipment, clothing and industrial machinery manufacturers.

3.2 Some Specific Issues

3.2.1 Winnipeg's Role in Manitoba's Economic Development

The economic prospects for Winnipeg are perceived to be more modest than for most urban centres in Canada and substantially below those of other major cities in the west, as "Canada Has a Future", published by the Hudson Institute reports.

"In our view, Winnipeg has a favourable, but not very exciting future. For Winnipeg, we merely project more of the same: slow, steady, and healthy progress, but a growth rate that will almost certainly be less rapid than that of the nation and the economy as a whole, because it rests ultimately on an only modestly expanding economic base. Of our major cities we project the slowest growth for Winnipeg."

Similar prospects were cited in a report prepared by an inter-governmental task force study on Winnipeg's development prospects. Economic and population growth were projected to lag behind most other Canadian cities.

While the severity of these forecasts can be questioned, there is a degree of consistency in economic forecasts for Winnipeg which suggests that concerted efforts to improve Winnipeg's growth prospects would have a substantial benefit and preclude what are essentially straight-line projections from becoming economic realities. Inputs from government -- federal, provincial, and municipal -- and the private sector, both business and labour, will be required to mitigate constraints to the city's economic progress.

On the basis of population growth and trends in consumption, Winnipeg's water supply system will require a second aqueduct some time before 1990, at an estimated cost of over \$200 million (\$1976). The financial demands of this project may have implications for the city's capability to undertake other needed capital works in sewage treatment, transportation, streets, and downtown revitalization. In order to compete with other urban centres in western Canada, Winnipeg must be perceived to be a vibrant, dynamic city. Neglect in any of these traditional areas of civic responsibility would detract from the many well-known attributes of Winnipeg as a place to live and do business.

3.2.2 Rail Route and Rate Adjustments

During 1978-79 the Crow's Nest Pass rates have been a main item for discussion by western agri-business groups. Rail line adjustment is a related agricultural matter, but the steps

taken toward rationalization have been reasonably well-accepted, even though the case for preservation of certain specific lines continues to be actively debated.

The movement of grain and other agricultural products is not easily segmented into neat categories in the minds of prairie people. Since adjustments in the configuration of rates will affect the volumes, value and composition of agricultural production and farm incomes, piecemeal changes are likely to be resisted strenuously, as people have no way of considering individual changes in the broader scheme of gains and losses. The possibility of change in rates as an individual action is particularly distressing, as the prairie farmer sees the Crow's Nest Pass rates on one side of the balance which weighs western interest against the monopoly of the railroads and the interests of eastern Canada. Currently these issues are being addressed in the framework of improving the efficiency and effectiveness of Canada's grain-handling system.

3.2.3 Outcome of GATT

The recent round of multilateral trade negotiations has resulted in phased reductions of the general level of tariff protection afforded Canadian industry and in improved foreign market access for Canadian processed and semi-processed raw materials. Western Canada has traditionally objected to having to purchase in a protected market (and endure the resultant higher prices) while having to sell its primary resource products in the face of competition in world commodity markets. However Manitoba, with western Canada's most diversified manufacturing base, with its 59 000 workers, and its large number of relatively small plants, may face some structural adjustments oriented toward the regional market. Joint public and private efforts can cushion the impact of those adjustments and help Manitoba's industry take advantage of improved foreign market access, particularly to the United States.

3.2.4 Hydro-Electric Development

Energy policy decisions, both in the national and provincial contexts, will have important influences on Manitoba's future economic growth prospects. Unlike the other western provinces, Manitoba does not have major fossil fuel resources (being only a marginal producer of petroleum), and depends upon imports of gas, petroleum products, and coal from other provinces for over 80 per cent of its secondary energy requirements. Given the limited substitutability of provincially-produced electricity for imported fossil fuels, Manitoba, like the other "consumer" provinces in eastern Canada, will continue to be vulnerable to energy supply decisions on the energy resources of "producer" provinces of western Canada and/or offshore sources. However,

because the province is well-endowed with sites suitable for hydroelectric development, Manitoba will continue to have abundant supplies of electricity. By 1980, Manitoba Hydro's hydraulic capacity will be 3 633 mW; this will still leave over 5 900 mW of potential hydraulic capacity for development after 1980.

Currently, Manitoba Hydro has an annual generating capacity of up to 30 per cent in excess of its domestic requirements. This situation has resulted from an aggressive program of hydro-electric resource development on the Nelson River over the past 13 years, and a substantial drop in demand, from about 7 per cent annually in the early 1970s to 1.4 in 1977-78. In view of its excess capacity, Manitoba Hydro has postponed further development on the Nelson River pending confirmation of markets.

As the costs of this surplus capacity have been incurred already, the province is attempting to utilize this surplus for domestic benefit or to capture revenues from additional export sales. The provincial government recently instituted a five-year freeze on hydro rates for Manitoba consumers to attract new industries and to assist existing ones to expand. With the "energy crisis", revenue from export sales to American utilities has grown dramatically, and increased sales to the United States are being pursued. As well, export markets in western Canada are being explored through investigation of the interest in an interprovincial electrical power grid. In short, over the medium term there appear to be lucrative export markets for Manitoba surplus power which will undoubtedly lend impetus to consideration of early resumption of northern hydro development. Again in the context of the "energy crisis", the renewed development of Manitoba hydro resources is being viewed as a magnet for industrial development which could result in economic impacts well beyond investment and employment directly related to construction of generation and transmission facilities.

3.2.5 Government Responsibility for Services to Native People

The responsibility for provision of public services to people of native ancestry has been a topic of federal-provincial discussions for some time. Any consideration of the topic has to be based on the fact that two groups of people are included in the general appellation "People of Native Ancestry". The negotiation of the Indian Treaties in the early days of agricultural settlement provided one group of people with Registered or Treaty Indian status. The second group, the non-Status Indian and Métis people, consists of Indian people whose ancestors did not enter into treaties or who have given up the Treaty Indian status, and people of mixed Indian and Caucasian ancestry who prefer to be identified as Métis.

The Province of Manitoba has taken the position that the federal government should retain responsibility for services to Status Indian people: not only for those on the Reserves but also for those who choose to leave the Reserves and live in Winnipeg or other centres. One study done in recent years estimated that the province was required to spend some \$30 million more per year in providing services to Status people than it received through federal cost-sharing or Indian taxation to support these programmes. The question of financial responsibility together with outstanding claims for Treaty rights will require government attention at least for the medium term.

Because of the similarity of socio-economic conditions between Status and certain non-Status or Métis people, representatives of the latter group have pressed strongly for active participation in universal and special federal and provincial programs serving their membership. The appropriate means of providing these services is a matter of concern to the non-Status and Métis population and both senior levels of government.

4. FEDERAL AND PROVINCIAL INSTRUMENTS

The history of Manitoba's economic development and its emerging prospects underline the vital influence of public policy on the course of its economy. The degree to which the course of the Manitoba economy is tied to public decisions makes the manner in which federal, provincial, and sometimes municipal policy actions are undertaken and integrated a matter of paramount concern.

Future prospects for Manitoba suggest that it will be incumbent upon the federal government to devote increased effort to ensure that benefits of economic expansion resulting from major resource projects, particularly those in western Canada, are matched with the existing and potential capabilities of the Manitoba economy, as they are perceived in both the regional and national contexts. Economic and constitutional factors, will necessitate continued federal-provincial consultation and perhaps joint federal-provincial initiatives to achieve this. These relationships will also have to be sensitive to any stimulating opportunity within the provincial economy which will add to national output and productivity.

While many areas of probable federal-provincial action are logical outgrowths of past and current federal-provincial initiatives, federal-provincial actions need not necessarily be conducted in the current institutional framework. To the extent that the majority of economic development initiative in Manitoba resides in the private sector, it is essential that its needs and aspirations be fundamentally incorporated into federal-provincial consultations, negotiations and subsequent initiatives. Mechanisms to enhance dialogue under the umbrella of federal-provincial development actions can serve to link public sector will with private sector opportunity. The attitude with which all facets of the economy - government, business and labour - approach the future of Manitoba is a key determinant of Manitoba's economic future.

4.1 Provincial Development Priorities

The major economic priority of the Government of Manitoba has been the creation of a business climate which will be conducive to private investment. Measures taken to stimulate business confidence have included changes in personal, business and minerals taxation, withdrawal from public ownership of business, control of public spending, reduction in the size of the civil service, and a five-year freeze of hydro rates. At the same time, government initiative has provided public infrastructure services which remove constraints to private investment.

To improve the growth prospects of Manitoba, priority has been placed on certain sectors of the economy. The province has stated that its growth will depend to an important degree on the further development of its agricultural, mineral and forestry resource base, together with the expansion of related manufacturing and processing industries. To this end, the Government of Manitoba has instituted several specific changes in policies and regulations to kindle the spirit of entrepreneurship in the province. In addition the provincial government has been attentive to the potential of policy and cost-sharing arrangements with other provinces and the federal government which might further Manitoba's economic development.

4.2 Provincial Instruments

4.2.1 Fiscal Capacity

The theme of the recent budgets of the province has been the reduction of deficits and the rationalization of government administration. To this end a number of recommendations of the Task Force on Government Organization and Efficiency, whose study was undertaken in the early months of the current administration, have been implemented. The 1978-79 Manitoba Public Accounts reflect the level of success in controlling provincial expenditures. A review of the 1979-80 provincial budget reveals the significance to the Province of Manitoba of initiatives under the General Development Agreement in support of economic development.

4.2.2 Resources Development

Manitoba Government policy has been aimed at the reduction of taxation and deregulation of government controls so as to improve the climate for private investment. As an example, mineral taxation has been adjusted and the province has reversed the former Manitoba policy of entering into site exploration and joint ventures in the mining sector. In the agricultural field the province has withdrawn from the agricultural lands purchase and lease policies in favour of more traditional farm credit systems. In the resource policy area the province prefers developmental and marketing arrangements which allow an increase in provincial value-added.

4.2.3 Economic Development

The province has established a sub-committee of Cabinet on economic development as a policy development body and has created a Department of Economic Development and Tourism.

For the medium term, the province has taken the policy position that it will maintain its role in providing public services necessary to remove constraints to economic development.

To this end the province has undertaken initiatives to expand its capacity to respond by providing industrial infrastructure and services in support of economic development.

4.3 Federal Instruments

Early federal policies were major forces in shaping the Manitoba economy. Current economic activities such as fur auctions, wheat trade, and transportation services derive from federal policies of early years. These early policies had a pervasive effect on the development of Manitoba. In the last two decades the province has undertaken substantial provincial initiatives to expand Manitoba's economic development prospects. However, current and prospective fiscal capacity leads the province to look to federal resources as a means of maintaining its economic initiatives. Federal initiatives can serve to maintain or expand economic activities in which Manitoba has competitive advantages.

4.3.1 Regional Development and the Agricultural Sector

The current expertise and activities in the national and international grain trade is one legacy of earlier western development. These grain trade activities, together with public research and a broad range of agricultural, manufacturing, processing and service activities, provide Winnipeg with a centre of expertise in national agricultural development matters which can be built upon so as to maintain Canada's role in international agricultural trade. Federal action to concentrate agricultural initiative in the Winnipeg area can both expand national strength and contribute strongly to Manitoba's regional development. The expenditures by Agriculture Canada on grain research activities have provided a long-standing regional development benefit to Manitoba. The grain stabilization legislation and the federal support of crop insurance have also provided a measure of stability to the agricultural sector.

4.3.2 Manufacturing and Processing

Federal initiatives which strengthen the capacity of Manitoba firms to export are key policy instruments for Manitoba's economic growth. A range of national federal industrial programs are available for use by firms: these include enterprise development, export development and development bank activities. Specific federal programs aimed at stimulating industrial development are necessary to expand the manufacturing base. Regional offsets from federal communication, defense and security expenditures represent a major means of stimulating industrial growth. The current health of prospects for aerospace firms in Manitoba is strongly dependent on federal policy.

The manufacturing and processing prospects of the province are often linked to federally-controlled policy and regulation. For the last 15 to 20 years statutory grain rates have discouraged the diversification of agriculture and related secondary processing. Tariff policy has resulted in higher costs for externally-purchased inputs to economic development activities. National marketing programs have not been focused on the range of products which form the main export potential of western Canada.

Specific federal instruments which have favoured Manitoba's industrial sector expansion include substantial assistance programs such as federal training and development schemes under the Canada Employment and Immigration Commission and the Regional Development Incentives Act (RDIA) program operated by DREE. Other federal-related activities such as those of Air Canada, the CBC, and the Department of National Defence contribute substantially to the industrial prospects of Winnipeg (besides supporting substantial service activities in the province) through the development and stabilization of labour skills which are necessary to industrial development expansion.

4.4 Federal-Provincial Instruments

The predominant strategic instrument for federal-provincial cooperation in economic development is the 1974-84 General Development Agreement (GDA). Under this joint instrument, regional development initiatives have been negotiated for northern development, value-added to special crops, mineral exploration, tourism and industrial development. The last of these contains provisions for the development of technology-based industries to help establish linkages between innovators and inventors. Together with RDIA, PFRA and the Special ARDA programs, these agreements form the current major focus of development plans with the province. Recently a GDA ministerial directive from the federal Minister of DREE and the provincial Minister of Finance, initiated a review of the strategy of the General Development Agreement to determine its adequacy to meet current economic conditions and priorities.

Long-standing federal-provincial agreements in national equalization and in specific resource management and social development activities augment and buttress the economic development expenditure. The Province of Manitoba has a long history of federal-provincial cooperation in energy and resource development. Federal-provincial pacts have allowed the province to focus resources and policy on medium-term economic development and adjustment measures even in the face of escalating financial requirements to support health, welfare and educational programs.

5. ECONOMIC DEVELOPMENT OPPORTUNITIES

5.1 Synopsis of Comparative Advantages

For the future, Manitoba's comparative advantages are to be found in natural resource endowments and management, and in processing, manufacturing, servicing, supply, transportation and distribution functions in support of resource industries in western Canada. These are supplemented in some industries by demonstrated expertise in national and international markets. Given the international market orientation of the western primary resource base, the prospects for the Manitoba economy remain heavily dependent upon linkages with markets beyond provincial boundaries. This is not a new realization; historically, it was principally external markets that determined the scope and pace of economic growth in Manitoba. However, unlike the past, dramatic changes are taking place across the spectrum of the province's external markets in the western provinces, the rest of Canada, and internationally; as a result the ability of those traditional relationships to sustain economic growth in Manitoba must be questioned. Manitoba's traditional economic linkages with the western Canadian economy cannot be relied upon to integrate the Manitoba economy into western Canada's extremely optimistic economic growth scenario.

The Manitoba economy is heavily oriented toward primary sector activities which are relatively less dynamic than those providing the major stimulus to economic growth in western Canada as a whole. The major engines of economic development in the region -- oil, gas, potash and uranium -- are not integral parts of Manitoba's economy; the province has more limited supply and services linkages to these sectors and they will contribute in a steady but unspectacular manner to Manitoba's economic growth. As a result, the unprecedented economic growth in major resource-related investment that is anticipated in western Canada may sharpen the contrast in growth rates between Manitoba and the other western provinces.

A major opportunity for enhancing Manitoba's economic prospects hinges upon harnessing the Manitoba economy to the more rapidly-growing areas of the west. At the heart of the growth prospects for western Canada are massive resource developments and the ensuing expansion, diversification, and urbanization. Accelerated economic activity in the west will generate substantial opportunities for a variety of goods and services -- supplies and materials for resource developments; machinery and equipment for processing and manufacturing; consumer durables and non-durables for a rapidly growing population; personal, commercial, and financial services; and transportation, distribution and warehousing facilities. After the resource-led

economic expansion, there will be rapid growth in western Canadian consumer markets which will be characterized by high disposable family incomes. Manitoba has provided such goods and services to the prairie region from the time of the first prairie settlements: expansion of this established capability is an obvious sphere of opportunity.

In addition to servicing the western Canadian market, Manitoba should continue in its effort to expand its exports of goods and services to national and international markets, and thus reinforce the dynamics of its provincial economy.

5.2 Winnipeg's Role in Western Canada

With dramatic expansions in economic activity projected for western Canada, there will be renewed opportunity for Winnipeg to continue in its unique economic and social role as "Gateway to the West". Winnipeg is a mature commercial, industrial and financial centre with importance as an international capital of the grain trade, a purveyor of financial and professional services to the Western Region and a transportation centre. The emerging western resource boom is likely to cause adjustments in an array of economic, institutional and administrative arrangements. Opportunities will arise for Manitoba to capitalize on movements along an east-west axis: because of this Winnipeg's relationship to national transportation networks is vital. Winnipeg is a logical mid-point from which transportation services could be provided to the growing east-west traffic.

Metropolitan Winnipeg provides a strong base upon which to expand a broad range of industrial activities, particularly those centred on agricultural processing, farm machinery production, light metal manufacture, and higher technology industries in composite materials, aerospace, electronics, health care, transportation equipment and other engineered products with a high potential for future growth. Its proximity to the prairie and mid-western markets of Canada and the United States as well as to the main Canadian transportation and energy networks, will continue to play a key role in providing Winnipeg with industrial development opportunities. If this potential is to be maximized, careful attention will have to be focused on factors constraining industrial development in Winnipeg, including the adequacy of the city's industrial and other forms of infrastructure.

5.3 Manitoba as a Regional Manufacturing Base

By its very nature, the substantial manufacturing base in the Manitoba economy can provide stimulus to the provincial economy through sales to extraprovincial markets. It was

indicated earlier that economic expansion in western Canada will generate supply demands for resource extraction and processing activities and lead to a growth in the consumer markets associated with such an expanded resource output. Logic suggests that the existing manufacturing base in Manitoba be utilized as a building block to service regional needs, and where production and marketing efficiencies permit, national and international markets as well.

Recently Canada and Manitoba acknowledged the importance of Manitoba's industrial sectors and entered into a five-year (1978-83) Canada-Manitoba Subsidiary Agreement on Industrial Development, which as "Enterprise Manitoba" promotes industrial activity through initiatives to accelerate industrial, commercial and technological development, through incentive assistance to small business and through industrial site preparation. The development strategy inherent in the agreement is to focus on opportunities encourage aggregate economic growth in the province and foster a more balanced growth between regions in the province. Priority industrial sectors are those that have strong linkages to the Manitoba economy or potential strengths. Industries to receive early attention include the food and beverage, health care products, light machinery, transportation equipment, aerospace and electronics industries.

The food and beverage industry accounts for 34 per cent of Manitoba's manufacturing shipments and 20 per cent of its manufacturing employment. A high proportion of the existing activity in this industry is in primary processing: thus an opportunity for more processing of foods and beverages exists in the province. However since most food processing plants require substantial volumes of water and produce large volumes of liquid and solid wastes, adequate water and sewage facilities constrain plant location options in the crop and livestock-producing regions of rural Manitoba. Efforts to remove this constraint should most logically be focused in areas of special crop potential which are near water sources that could be adjusted at reasonable cost.

Manitoba's transportation equipment industries, which have grown rapidly in terms of both employment and shipments, can take advantage of the growing national and regional markets. The broad opportunities associated with the growth of the western regional economy were outlined earlier; there is no doubt that existing capabilities in such fields as truck body and commercial trailer manufacturing have potential for expansion. The diversified capability of Manitoba plants, together with the proximity and sensitivity to local and regional markets also suggests that there is potential in the production of low-volume custom-made transportation equipment.

The metal fabricating industries in Manitoba have developed a strong capability in a wide range of product lines with excellent local support facilities. The industry essentially services the regional market and growth prospects are closely linked to the prospects for the principal industries it supplies: these include the transportation equipment, agricultural machinery and construction industries. To the extent that these prosper, opportunities will be generated for the metal-fabricating sector. Manitoba also has a number of firms producing highly specialized industrial equipment which, because of its unique nature, can be marketed in export markets. With close attention to research and development, design and quality, continued expansion in this area is possible.

The agricultural machinery industry, which has grown faster in Manitoba than nationally, is now the second-leading producer of farm equipment in Canada (after Ontario). Production includes four-wheel drive tractors, swathers, grain augers, hay handling equipment and cultivating and seeding machinery. Although the industry is concentrated in Winnipeg, important plants are located in rural Manitoba at Brandon, Minnedosa and in the Morden-Winkler-Morris area. In the future, improvements can be expected with domestic market growth, increased exports, import substitution, and diversification into the rapidly-growing construction/industrial market. Development of a "mainline" facility in Manitoba and continued sub-contracting to "mainliners" could contribute to growth, but in the case of the latter, close attention to productivity is essential.

The Manitoba aerospace industry is a high-technology industry with a proven capability in manufacturing, repair, maintenance and overhaul, research and technology development and operations support activities; and it is backed up by a solid core of specialty sub-contractors. Currently the major firms employ 2 250 and have annual shipments of about \$70 million. Overall, Manitoba has maintained 8 to 9 per cent of the employment and production of the Canadian aircraft industry, which is projected to grow substantially over the medium term, largely because of the \$2.4-billion New Fighter Aircraft (NFA) program; but expansion will also be supported by the growing demand for air transportation, particularly that associated with northern development. If Manitoba retains its proportion of activity in the national context, this growth would generate a 70 per cent increase in production over 1977 levels and could mean an additional 2 000 jobs to the provincial economy.

Electronics is another high-technology industry which plays an increasingly important role in the aerospace and other advanced technology industries. In addition to avionics, Manitoba could capitalize on its technology base in the fields of remote data sensing, transmission, medical electronics,

telecommunications, rocket and space instrumentation, environmental and atmospheric monitoring systems, and high-voltage, direct-current transmission and switch gear.

The health care products industry is a rapidly-growing field of potential for Manitoba industry which can capitalize on Manitoba's existing technology base, particularly in the electronics and aerospace industries. A nucleus of electronics and plastics firms with experience in health applications exists in Manitoba. Opportunities may range from equipment manufacturing to drugs and appliances.

In summary, from the review of opportunities in the manufacturing sector, several interrelated issues emerge. First, an effort to retain the contribution of footloose industry to the provincial economy will be required. Second, improved productivity and control of labour costs are essential to the maintenance and/or growth of Manitoba industry. Similarly, and with an eye on future requirements, increased research and development efforts will be necessary. Third, with the growth in the western Canadian economy, pressures will arise for skilled manpower, and joint government/industry planning will be needed to ensure adequate supplies of such manpower.

5.4 Increase Value-Added to Resource Products

5.4.1 Southern Rural Manitoba

The level of economic activity in southern rural Manitoba is very dependent on the agricultural sector and its related industrial and service activities. Secondary centres play a particularly important role because they serve as locations from which a broad range of commercial and agricultural services necessary to the efficiency of the farm industry are provided. These centres also serve as suitable locations for agriculture-related industrial activity: approximately two thirds of the manufacturing activities in rural agricultural manufacturing activities in rural agricultural areas are linked to primary resource production and the processing of primary products. Agricultural activity contributes substantially to a balanced economic growth in the rural areas and secondary centres; in addition it stimulates activity in Winnipeg through service and manufacturing linkages on both the input and output side.

Like the rest of the prairies, Manitoba has the resource potential to increase the volume and value of agricultural production, but supply management and marketing policies are major restraints to realizing this development potential fully. However, there is opportunity to increase crop production as markets expand, to diversify to higher value crops

and crops for processing and to stabilize livestock production and finishing. Within this generalization, it should be noted that Manitoba has a uniqueness attributable to climate which is manifested by a strong performance record in special crop production. From the perspective of import substitution, potential exists for increased grain corn production and possibly the introduction of soybeans to meet both livestock feed and industrial needs. Ex ante analysis indicates a high return from investment in specialty crop production: it contributes to the stability of farm incomes, improves income levels, and has an export orientation.

A development strategy in support of these objectives is embodied in the five-year Canada-Manitoba Subsidiary Agreement on Value-Added Crops Production. In support of provincial economic growth and the development of strong secondary centres in Manitoba, this agreement prescribes initiatives to accelerate the expansion of special crops production, to improve forage production and the efficiency of the beef enterprise, and to provide for specific land productivity activities toward the accomplishment of these initiatives as well as to strengthen the agri-rural resource base.

5.4.2 Northern Resource Region

In the northern resource region economic opportunity will continue to be focused on resource-based activity. The prospects for northern industrial centres will be determined by the strength of the resource sectors on which they are based. The remote, largely native, communities will continue to be characterized by rapid population growth, more limited income opportunities and high unemployment.

The downturn in mining due to sluggish world metal markets has led to a sub-regional realignment of job opportunities. Although large capital expenditures (in the context of the Manitoba economy) are being made at existing operations at Snow Lake and Leaf Rapids, no major new developments are projected in the near future.

Although Manitoba's geography leads to expectations of as yet untapped mineral resources, their random discovery precludes comprehensive, authoritative predictions of future developments. In the longer run, interest in uranium and metallic minerals may result in new undertakings, with the highest potential in the general region where mining centres are currently located. Nuclear and other sophisticated technologies may accelerate interest in expanding lithium and cesium production.

In forestry, Manitoba's resource availability is not a theoretical constraint to expansion; but in practice, competition with other domestic and international producing regions, and the nature of the wood resources, generally leave Manitoba producers and processors at a disadvantage. The forestry sector will continue to be important in the provincial economy, particularly from the sub-provincial perspective of the employment it generates in the northern and forest fringe regions of the province. Efforts will be focused on ensuring the successful operations of major plants at The Pas and Pine Falls; priority will be given to efficiency, transportation and environmental protection. The further development of community-oriented operations feeding these two large plants depends on their continued health. A more remote possibility exists in new developments outside of the lumber and pulp and paper industries through the use of innovative technology to harvest underutilized species and/or stands; they could provide significant pockets of regional employment.

Fishing and trapping will not be major factors in the aggregate performance of the provincial economy but will remain important as vehicles for participation in economic activity in the forest fringe and northern regions of the province where few other options exist.

Similarly, construction activity associated with renewed northern hydro development (this is dependent on market availability) and the proposed Polar Gas Pipeline (which is to be routed through Manitoba) may provide large numbers of construction jobs and a limited number of permanent jobs in operating functions. As in the past, however, a substantial effort will be required by both senior levels of government to ensure that northern developments and resource activities provide employment/participation options for native northern residents. At present, vehicles such as Special ARDA and the northlands subsidiary agreement are used in part for this purpose.

5.5 Service Sector Opportunity

The opportunity for increased service exports presented by the western resource expansion have been discussed earlier. Manitoba's historic position as a purveyor of financial services to the prairie region may be emulated by other professional services such as the engineering, the architectural, and others. We might add that there may be substantial opportunity for improvement in the productivity of the service sector through technological innovation.

The natural resource endowments of the province also provide opportunities for the tourism industry which can satisfy national interests (e.g. balance of payments tourism account)

while simultaneously providing economic development benefits to the province. There is substantial potential for the Winnipeg region and destinations within a reasonable drive of the city to increase their tourist "draw" and serve to extend the visits by foreign tourists. Furthermore projects which capitalize on the province's resource base and ethnic and cultural diversity would increase the destination options for tourists. To take advantage of opportunities in tourism, Canada and Manitoba recently entered into a \$20 million, five-year (1979-84) Subsidiary Agreement on Tourism Development to accelerate economic development in the province, to foster more balanced economic growth in Manitoba and to contribute to reductions in Canada's trade deficit. Programs under the agreement are designed to support the development of destination areas, to improve the productivity of the industry, and to receive substantial inputs from private sector tourism organizations; as recommended by the Sector Task Force Report on the Canadian Tourism Industry.

The contribution of federal government agencies and institutions to the service sector of the provincial economy cannot be overlooked. Federal interest in decentralization of government services, Manitoba's moderate growth prospects, its central location in the geography of Canada and its demonstrated areas of competence (which include agriculture, grain marketing and financial services) suggest a rationale for increased federal government activities in Manitoba.

Finally, there is the untapped development potential in the service sector of remote northern communities. Generally speaking, rudimentary commercial services are non-existent in the remote north. Mere population size suggests that markets exist even though their ultimate potential may be reduced by low local income levels. However, the development of the service sector would not depend solely on the local residents (hotel services, for example, could originate from the south); but over the longer run, a successful service sector could lead to increased income in the community: small businesses such as repair shops, laundromats, beauty shops, bakeries, and fast food services appear to have potential. But capital, management, and the availability of serviced sites remain as constraints to these activities.

6. SUMMARY AND CONCLUSIONS

The performance and prospects for the Manitoba economy are heavily dependent on linkages with markets beyond provincial boundaries. This is not a new realization; historically, it was principally external markets that determined the scope and pace of economic growth in Manitoba. However, dramatic changes are taking place across the spectrum of the province's external markets in the western provinces, the rest of Canada, and throughout the world: as a result, it is unlikely that traditional economic relationships can be relied upon to sustain economic growth in Manitoba. The challenge for Manitoba's economic future is the development of healthy, vibrant economic linkages with extraprovincial markets, a challenge which will demand aggressive and insightful approaches by all facets of the provincial economy.

The diversified structure of the Manitoba economy has arisen from a combination of a history of resource-based economic activities buttressed by public sector development policies and the fortunate inheritance of relatively "footloose" industries. Initially, Manitoba was settled in response to external demands for fur staples; further settlement and expansion of service and later manufacturing activities arose to service the needs of the growing agriculture-based settlements across the prairies. Later, the province's new primary resource frontiers in forestry, mining and hydro-electric developments enhanced the resource production and service/supply relationships which had become established in its economy.

Winnipeg, because of its geographical location, developed as the "entrepôt" linking the primary resource exporting region of the prairies to the financial and business capitals in central Canada. This is reflected in the emergence, on one hand of transportation, distribution, wholesaling, and later of manufacturing activities to service the market demands of the growing prairie settlement and resource sectors; and on the other hand, the emergence of finance, commercial and transportation, and later again, of processing activities associated with the export of primary resource products from western Canada to eastern Canada and world markets.

The existence of footloose activities in Manitoba is explained by Winnipeg's role as an entrepôt and by the local skill base, both largely the by-products of government policies. Aggressive immigration policies led to the concentration of an experienced needle trades labour force and an entrepreneurial group in Winnipeg; World War II, through the Commonwealth Airtraining Plan, left Manitoba with an experienced skill base in the aerotrades industries; wartime production similarly

rejuvenated Manitoba's traditional capabilities in transportation equipment. Although not integrally linked to regional resource processing, service and supply, like resource-linked activities, of necessity have a strong orientation to extraprovincial markets.

The evolution of the Manitoba economy has resulted in an economy of one million people in an area of some 640 000 square kilometres. Approximately 90 per cent of the population lives in the southern third of the province; over one half of the total population resides in the metropolitan Winnipeg area. The southern agricultural area is devoted to crops and livestock production with the dominant proportion of regional economic activity related to service and supply of the agricultural base. The agricultural region has service, supply and processing linkages with the Winnipeg economy. The northern or primary resource region, which encompasses almost two-thirds of the geographical area of the province, is characterized by natural resource activities -- mining, forestry and hydro -- which have limited service and supply linkages to the rest of the provincial economy. However, this region is also characterized by substantial pockets of socio-economic disparity which affect the aggregate health of the provincial economy largely through government service linkages.

Winnipeg dominates the industrial, commercial and institutional spheres of the provincial economy. The level and pace of economic activity in the capital is determined by its interactions, first in the provincial, and second in the regional and national context. Provincially, this is most apparent in the agricultural sector: Winnipeg contains a wide array of processing, transportation, marketing and other service and supply enterprises and institutions linked to the farm economy.

In the broader regional and national context, Winnipeg has functioned as an entrepôt linking the resource-exporting regions of western Canada to the manufacturing, financial and business centres of the east. In this role, Winnipeg has achieved importance as a transportation, distribution, manufacturing as well as financial and commercial centre for western Canada. Current major resource investments are likely to stimulate service industry expansion in western cities closer to the natural resources. Although this shift of service functions to other cities may erode Winnipeg's traditional functions, its own proximity and transportation linkages to the major western resource areas will stimulate the expansion of its established manufacturing and entrepôt functions.

An analysis of trends among key economic variables during the 1971-78 period indicates that there has been a steady erosion of Manitoba's relative position in the Canadian economy. The province's share of real output, population, personal income, value-added, employment and investment has declined steadily throughout the 1970s. This is not to suggest that there has been no growth among these variables: rather that this growth has not kept pace with the rest of Canada.

The Manitoba economy seems likely to continue to experience steady but unspectacular growth over the medium term. It is heavily oriented towards western Canadian resource sectors, which while remaining strong, will be expanding at moderate rates. Other primary commodities -- oil, gas, potash, and uranium -- which are not integral parts of the Manitoba economy, and with which the Manitoba economy currently has more limited supply/service linkages, are the contemporary motors of economic expansion in western Canada and are projected to lead to unprecedented economic growth in the rest of western Canada.

Accelerated economic activity in the west will generate substantial opportunity for a variety of goods and services: supplies and materials for resource developments, machinery and equipment for processing and manufacturing; consumer durables for the rapidly-growing and concentrated urban populations with high disposable incomes; personal, commercial and financial services; and transportation and distribution facilities. A significant factor in Manitoba's economic prospects over the medium term will be the degree to which the province is successful in integrating its economic and industrial structure with the dynamics of western Canadian growth.

