

HT
395
•C32A852

MAR

185-E-1

no

**CANADA-EUROPEAN COMMUNITY.
JOINT CO-OPERATION COMMITTEE**

Preparatory and General Cooperation Subcommittee

**ECONOMIC DEVELOPMENT
AND REGIONAL POLICIES
IN CANADA**

**Selected material
compiled by**

THE DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

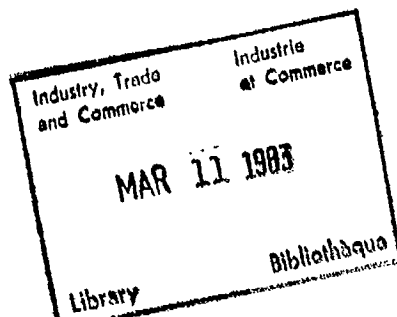
GOVERNMENT OF CANADA

MARCH 1979

HT
395
C3
C4

TABLE OF CONTENTS

I	REGIONAL DEVELOPMENT POLICIES UNDER THE CANADIAN FEDERAL SYSTEM	1
	Regional Development	4
	The Division of Powers between the Federal and Provincial Governments	9
	Programs and Types of Federal-Provincial Co-operation in Regional Development	12
	Other Programs for Reducing Regional Disparities	24
	Conclusion	29
II	ECONOMIC CIRCUMSTANCES AND MEDIUM-TERM PROSPECTS BY PROVINCE	31
	Atlantic Region	37
	Newfoundland	43
	Prince Edward Island	49
	Nova Scotia	55
	New Brunswick	61
	Quebec	69
	Ontario	79
	Western Region	89
	Manitoba	95
	Saskatchewan	101
	Alberta	107
	British Columbia	113
III	CANADIAN MANUFACTURING PROSPECTS FROM A REGIONAL PERSPECTIVE	119
	Overview	121
	Atlantic Region	123
	Quebec	127
	Ontario	130
	Western Region	134
	Changes in Average Monthly Manufacturing Employment by Region and Sector: 1976-1977	139



APPENDIX

SELECTED BRIEFING MATERIAL ON THE DEPARTMENT OF
REGIONAL ECONOMIC EXPANSION

A

SUMMARY NOTES OF INCENTIVES TO INDUSTRY IN CANADA
AND AVAILABLE TO BOTH CANADIAN AND NON-CANADIAN
INVESTORS

(Source: Foreign Investment Review - Autumn 1978)

B

REGIONAL DEVELOPMENT POLICIES
UNDER
THE CANADIAN FEDERAL SYSTEM

Prepared by the
Department of Regional Economic Expansion
Government of Canada

November 1978

Introduction

The first part of this report deals with the question of regional development in the Canadian context. Part two concerns the sharing of powers between the federal and provincial governments.

In part three, the terms and conditions of federal-provincial co-operation are examined in the light of the many regional development programs implemented by the Canadian government since 1961. The current co-operation formula, under which the federal and provincial governments sign general development agreements authorizing joint interventions, has been developed over the years.

The last part of the report is devoted to other federal programs, some of which are designed specifically to benefit slow-growth regions. These programs involve either a redistribution of federal funds in the form of transfers or the regionalization of federal measures or expenditures. Therefore, they remain inseparable from regional development policies as such.

REGIONAL DEVELOPMENT

Since the beginning of Confederation in 1867, federal and provincial administrations have assumed responsibility for the care and development of Canada's regions. Over the years, major activities have been undertaken primarily in response to geographical factors which posed a problem to governments in their attempt to build a national economy. While trade barriers against the movement of goods were taken down when Canada became a nation, physical obstacles remained. Distances (5,000 km from east to west), surface area (more than 10,000,000 km²), natural obstacles (snow, mountains, tundra) and harsh climatic conditions are all aspects of Canada's unique geography. Even after eleven decades of rapid population growth, less than 10% of the national territory has been permanently settled. It was inevitable that the process of uniting the Canadian economy in an integrated trade network would depend on the development and specialization of Canada's regions according to their natural assets as well as on the establishment of an autonomous network of communications from coast to coast. The integrated development of the economy and Canadian society continues to be the

basis for strong measures in any region of the country capable of contributing to the prosperity of the nation as a whole. For example, the development of Canada's northern regions has become a key component of federal and provincial development policies.

The wide dissimilarities in the country's landscape, the unequal distribution of exploitable natural resources and the distances separating communities from markets were to create different development conditions in each region. During the nineteenth century, economic growth in the Atlantic region (Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland which joined the Canadian Confederation in 1949) was largely dependent on markets in England, the United States and the West Indies. After Confederation in 1867, exports to these markets declined. Furthermore, this region's ties with and involvement in the Canadian economy were jeopardized by the distance separating it from the expanding markets in central Canada and by its comparative lack of resources. Today, the population of the Atlantic provinces accounts for 9.5% of the Canadian total of 23 million.

Quebec and Ontario, by far the most heavily populated provinces, derived benefit from the plentiful forest, agricultural and mineral resources in central Canada. Exploitation of these resources was based on easy access to waterways such as the St. Lawrence and its tributaries and the Great Lakes as well as on an abundant supply of hydro-electric power. Because of their central location and their close proximity to the industrialized New England and midwestern states in the US, these two provinces were in the best position to embark on the road to industrialization and attract immigrants from Europe and the United States. Today 63% of all Canadians live in these two provinces - 36% in Ontario and 27% in Quebec - and 58% of the nation's population is concentrated in a zone bounding on the US border to the south and stretching approximately 1,000 km from Quebec City in the east to Sault Ste Marie, Ontario, in the west.

West of Ontario, the Prairie region (Manitoba, Saskatchewan and Alberta) forms a vast continuous plain that extends approximately 1,500 km and is well suited to grain growing, livestock raising and, since World War II, the exploitation of oil and natural gas reserves which abound in the northwestern part of the region. The soil is also rich in potash and rare minerals. The development potential of the three provinces is unequal; Alberta, with its oil resources, is one of the richest provinces in the country. This region contains 16% of Canada's population.

British Columbia lies to the extreme west beyond the Canadian cordillera range (the Rockies) and stretches to the Pacific Ocean. It has the best climatic conditions in the country. With its wealth of resources, British Columbia ranks first among the provinces in forestry production. Some of the best fruit-growing areas of the country are located in the interior valleys in the southern part of the province, while there are significant mineral deposits in the northern region. The population of British Columbia accounts for 11% of the Canadian total.

North of the 60th parallel lie two territories administered by the federal government: the Northwest Territories and the Yukon. This region covers 40% of the total area of Canada and its population numbers less than 60,000. A high percentage of the people are of Indian or Inuit origin. Mineral resources abound, but they have been exploited very little. The recent discovery of major oil and natural gas reserves in the Mackenzie delta and offshore in the Arctic Ocean should lead to gradual development of this region during the coming years.

It was inevitable that sooner or later the unequal economic potential of the Canadian provinces would cause financial tension within the provincial administrations and between the federal and provincial

governments. As we will see later, the functions devolving upon the provinces under the British North America Act were destined to gain in importance and impose an increasingly heavy burden as Canada emerged as a modern nation. Economic disparities among the provinces quickly surfaced in the realm of public finances. The wealthier provinces could offer their citizens a large number of quality public services in the spheres under their jurisdiction such as education, health, social welfare and natural resources development. However, the poorer provinces were unable to offer equivalent services or benefits without requiring more money of their taxpayers and thereby jeopardizing the growth of their economies. After World War I, provincial government expenditures increased rapidly, largely because of the provinces' responsibilities in social matters. As a result of the intensity of the economic crisis during the thirties, provincial and municipal finances were forced to carry the double burden of a marked increase in unemployment relief benefits and an unprecedented drop in tax revenues. Under these circumstances the federal government was obliged to provide assistance to the provinces which were hardest hit and attempt to set them on the road to economic recovery through grants or loans. In 1937 a Royal Commission on Dominion-Provincial Relations was set up to carry out an in-depth study of the nature of fiscal disparities among the provinces and to propose solutions to the tax imbalance problem. The Commission tabled its report in 1940. In 1939, however, discussions were interrupted by World War II and further study of possible reforms was postponed. Despite everything, the federal government initiated an unemployment insurance and old-age security program in 1940, thereby relieving the provincial treasuries of this financial burden. It was not until 1957 that relief measures were introduced to bolster revenues of provincial governments and provide them with greater financial means. These measures took the form of equalization payments by the federal government to the provincial governments and shared-cost programs in the field of social security.

This redistribution of funds levied across Canada in order to assist provincial governments made it possible to lessen the fiscal imbalances created by disparities in the relative size of the various provinces' tax bases. However, redistribution of funds does not tackle the root of the problem - the difference in per capita income from province to province. Disparity of this kind exists not only among the provinces but, to a much greater extent, within each province as well. Income disparities among the provinces have fluctuated considerably during the past fifty years. Despite this, the per capita income of Canadians has slowly balanced out since the beginning of the fifties through the combined effect of out-migration to the more prosperous provinces and the general rise in the personal income level in the provinces. While this increase tends to reduce income imbalances, it also leads to high unemployment rates in certain provinces where out-migration is more or less equal to or lower than in-migration. The resulting unemployment shows that the country's resources are not being utilized to their full potential. At the same time, the fact that people are moving to the rich provinces could ultimately jeopardize the future of the regions and provinces where the population is declining. The regional development policies which the federal and provincial governments have been implementing since the early sixties are aimed at countering or slowing down this process.

Aside from regional programs, the federal government administers national programs intended for the entire population of Canada, regardless of region. However, in so far as these programs and the expenditures involved lend support to activities and functions of greater magnitude and scope in the wealthy provinces, they will lead to greater disparity. For example, the federal government has been accused of implementing economic development or stabilization policies which, under a cover of complete neutrality toward the provinces, in effect benefited the wealthier regions because they were better situated or were in a better

position to turn national policies to their advantage. Faced with this situation, it can attempt, where feasible, to adjust or regulate these policies according to the economic conditions prevailing in each province or in certain regions.

DIVISION OF POWERS BETWEEN THE FEDERAL AND PROVINCIAL GOVERNMENTS

The Canadian federal state became a reality with the passage of the British North America Act in 1867. Fashioned from the seventy-two resolutions drafted by the Fathers of Confederation in 1864, the Act provided for the union of four provinces - New Brunswick, Nova Scotia, Ontario and Quebec - in one dominion to be called Canada. It was understood that other provinces or territories could enter Confederation at a later date. In 1870, after the British Crown ceded to Canada the vast territories of the Hudson's Bay Company, the province of Manitoba joined the Dominion. British Columbia entered Confederation in 1871, and Prince Edward Island did so in 1873. Alberta and Saskatchewan followed suit in 1905. Newfoundland joined in 1949. At present, Canada comprises ten provinces and two territories administered by the federal government.

Under the British North America Act the federal system became Canada's political structure. This type of government met the needs expressed by the founding provinces in discussions and agreements between their delegates, the Fathers of Confederation, and was aimed not only at safeguarding regional interests but also at protecting the language and cultural rights of Canadians of French origin. ^{social welfare}

"Since the purpose of the BNA Act was to create a federal system of government, important provisions of that document deal with the division of

powers between the federal and provincial governments. Each level of government is virtually sovereign with respect to the powers it exercises. While the federal government under the British North America Act has the power to disallow provincial legislation, this power has not been exercised in recent years. Hence, each provincial government is as sovereign as the federal government, when acting within its sphere of power.

"The primary scheme of the distribution of powers was to grant to the federal government jurisdiction over all subjects of general or national concern while giving to provincial legislatures jurisdiction over all matters of a local nature. Section 91 of the BNA Act lists federal powers. It gives the Parliament of Canada a general power to 'make laws for the peace, order and good government of Canada' and gives a list of classes of subjects over which Parliament has exclusive authority which illustrate but do not restrict the general power. The list contains 31 classes of federal powers such as regulation of trade and commerce, defence, currency, raising money by any mode or system of taxation, postal services, navigation and shipping, weights and measures and criminal law. Section 92 assigns to the provinces the power to legislate regarding direct taxation within the province, the management and sale of public lands and timber belonging to the province, municipal institutions, laws relating to property and civil rights and all matters of a merely local or private nature. Section 95 of the BNA Act gave the federal government and the provinces concurrent powers over agriculture and immigration but federal law prevails in cases where the laws of both levels of government are in conflict. Similar concurrent powers exist in respect of old age pensions and supplementary benefits, including survivors and disability benefits, but no federal legislation affects the operation of provincial laws in this field if a conflict occurs with provincial legislation.

"The drafters of the BNA Act in 1867 probably thought that such a division of powers was so definite and precise that no future difficulties would arise in deciding what subjects were under federal legislative control and what subjects were under provincial legislative control. However, the powers enumerated in Section 91 and 92 are not mutually exclusive and sometimes overlap....

"Difficulty in interpreting the division of powers has also arisen as a result of new social, technological and political conditions that were unforeseen at the time of Confederation. Social welfare legislation, such as unemployment insurance, and legislation concerning modern communication facilities were not contemplated by the drafters of the BNA Act. Nevertheless, power to legislate on these subjects had to be assigned either to the federal or provincial governments by reference to the BNA Act. Canada's emergence into the international community as a completely independent nation, which also was not foreseen in 1867, required an allocation of responsibility for new concepts such as aviation, broadcasting and citizenship between the two levels of government or in some cases to one or another government.

"One significant outcome of the allocation of powers under the BNA Act has been that the expenditures of the provincial governments have often outstripped their tax resources. In 1867, the provinces were assigned responsibility for social services such as hospitals and schools as well as for municipal institutions. At that time this did not involve major expenditure of public funds. However, changing demands of society and the entry of government into the field of social welfare led to the expenditure of large sums. The provinces have power to levy direct taxation within the province for provincial purposes while the federal government has a broader authority to levy taxes by 'any means of taxation'. The federal government has therefore substantial tax resources.

While the provinces have responsibility for many costly public institutions they often do not have the necessary financial resources. In order to redress this, numerous federal-provincial tax-sharing agreements and shared-cost programs have been entered into by the federal and provincial governments. Such agreements were not, of course, anticipated by the original drafters of the BNA Act. Nevertheless these agreements have resulted in new constitutional arrangements and techniques for dealing with federal-provincial economic relations and have come to be known collectively as 'co-operative federalism'.¹

PROGRAMS AND TYPES OF FEDERAL-PROVINCIAL CO-OPERATION IN REGIONAL DEVELOPMENT

The previous section not only considered the division of powers between the federal and provincial governments; it also described the problems that federal-provincial relations present in areas where the two levels of government possess concurrent powers. Regional development is one of these areas. Since the beginning of Confederation, the federal government has assumed responsibility for developing the national territory, notably by backing the construction of the trans-continental railway network, settling and developing the Canadian Prairies, implementing its national industrialization policy and so on. The size and specific nature of the Canadian regional problem requires certain recovery and development measures that only a central government can undertake with some chance of success: integrating the Canadian economy, lessening fiscal disparities between the provinces, reducing socio-economic inequalities and regionalizing nation-wide programs.

¹ Statistics Canada, Canada Yearbook, 1976-1977, Department of Supply and Services, Ottawa, Canada, 1977, pp 50-51.

However, the provincial governments have full jurisdiction over: the exploitation of the natural resources on their territory, which in the beginning accounted for a large percentage of their revenues; the development of provincial infrastructures; and the establishment and distribution of development-related public services through their municipalities. Thus any federal involvement in these areas requires the co-operation of the provincial authorities. It goes without saying that it is in the interest of all the provinces to participate in developing the national economy. Nevertheless, regional development activities call into play a great number of objectives and requirements on which both levels of governments must agree before priorities for joint activities can be established.

This situation has given rise to various mechanisms for co-ordinating and assigning the financial responsibilities involved in regional development. In this connection, it is possible to envisage various federal-provincial co-operative formulas for planning and implementing development programs. For example, one level of government could act alone in an area under its jurisdiction, or the two levels could work together to formulate and carry out regional development policies regardless of their specific jurisdictions. Between these two extremes there are other types of co-operation, ranging from mere consultation between the two levels to an approach where one government contributes financially to projects formulated and implemented entirely by the other. Through the years, Canada has experimented with a whole range of mechanisms, although the trend is now toward increased co-operation. A brief look at the recent history of regional development policy will give us a better understanding of the situation.

The introduction of regional development policies (1961-1969)

Federal involvement in the field of regional development goes back to the beginnings of Confederation. Until the second half of this century it took the form of special measures of varying importance designed to provide stimulus or to remedy particular situations, such as the remoteness of markets, drought, or the development of land under federal jurisdiction or under that of several provincial governments. With one or two exceptions, these measures have been discarded or now exist as integral parts of sectoral federal or provincial programs. Such is the case of the program outlined in the Prairie Farm Rehabilitation Act (PFRA) of 1935. This program, which was formulated to assist Prairie farmers during the drought of the thirties, is still in effect and is now administered with different terms and conditions by the Department of Regional Economic Expansion.

A true regional development policy was not implemented until the sixties: Parliament passed the Agricultural and Rural Development Act (ARDA) in 1961, the Atlantic Development Board Act in 1962 and the Department of Industry Act creating the Area Development Agency in 1963. The specific programs laid out in these three acts represented very different kinds of federal-provincial co-operation, which provided the basis for the mechanisms established in later years.

Still in effect, the Agricultural and Rural Development Act authorizes the federal government to participate financially in the development and implementation of projects, activities and plans for the re-establishment and development of the country's hardest-hit rural areas. The minister responsible for the program, acting on behalf of the federal government, makes five-year agreements with the provincial authorities concerning the designation of impact areas, the intended fields or sectors and the measures to be adopted. Usually the provincial authorities will formulate and implement the projects authorized under the agreement, and the federal government will pay half of the cost.

The agricultural and rural development program lends itself to on-the-spot activities of limited scope concerning the use of agricultural lands and forests and improvement of living standards in rural communities. However, the Act also authorized the preparation of integrated regional development plans. Five such plans, covering the Mactaquac area in northeastern New Brunswick, the Interlake region of Manitoba, and Prince Edward Island, have been established - four in 1966 and one in 1969 - and implemented under federal-provincial agreements. The PEI plan will remain in effect until 1984; the others expired in 1976. In order to finance these plans it was necessary to set up the Fund for Rural Economic Development (FRED). The Act establishing FRED was repealed in 1969 when the Department of Regional Economic Expansion was created, but the new Department assumed the financial commitments made under the program. It should be noted that not only were these development plans implemented under federal-provincial agreements but they also gave rise to numerous mechanisms for co-operation between the federal and provincial administrations concerned: committees to administer and carry out the agreements and sectoral subcommittees comprising representatives from both levels of government.

The activities of the Atlantic Development Board were different from those of the other programs: the Board dealt exclusively with a territory made up of four provinces - Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland - with a population of about two million people and offered the possibility of involvement in all sectors. It was not, like the previous programs, based on a prior agreement with the provinces which defined the nature and scope of activities. However,

in fields of provincial jurisdiction, especially regarding the establishment of provincial or local infrastructures, it was necessary to sign agreements with the provincial authorities to ensure that implementation costs would be shared and the projects incorporated in provincial programs. The provincial governments and private industry as well as the Board itself were entitled to propose projects or activities, but the Board was required to vouch for the validity of each project to federal government financial control agencies, notably the Treasury Board.

Despite its name, the Area Development Agency was active only in the manufacturing sector, granting tax incentives to businesses for establishing facilities or expanding in declining or slow-growth areas. At first the incentives took the form of exemptions from federal corporation tax for three years after new facilities had begun operations and of faster amortization of new assets. From 1965 on, the Area Development Incentives Act gave the program greater scope and replaced the corporation tax exemptions with development grants or a federal tax credit in the same amount. It should be noted in passing that consultation with the provincial governments preceded the designation of impact areas.

The creation and early days of the Department of Regional Economic Expansion
1969-1973

The problem of co-ordinating these various programs, which came under separate agencies, and the need for unified and larger-scale action led to the creation of the Department of Regional Economic Expansion in 1969. This new Department took over the administration of all existing federal regional development programs and bodies. In addition to the programs discussed in the preceding section, there were more limited or specific measures which had been implemented in precise circumstances.

or to deal with particular aspects of regional development. These programs or measures were either: (1) incorporated as such in the Department of Regional Economic Expansion's plan of action, (2) modified or replaced by other methods, or (3) abolished. The first group included the agricultural and rural development program; the second, the Area Development Incentives Act, which was replaced by the Regional Development Incentives Act (RDIA), the Atlantic Development Board, now the Atlantic Development Council, and the Prairie Farm Rehabilitation Administration, the role of which was redirected toward methods more in keeping with current Prairie requirements, such as aid to the infrastructure through agricultural service centres; and the third, the Fund for Rural Economic Development and the Area Development Agency. Other less important measures remain in effect until the legislation or orders in council instituting them expire or until the activities undertaken under their authority are completed.

The Department of Regional Economic Expansion had a new conception of regional development. Its primary objective was the creation of productive employment and provision of it "in areas requiring special measures to improve opportunities for productive employment and access to these opportunities", without excluding "such other matters over which the Parliament of Canada has jurisdiction relating to economic expansion and social adjustment as are by law assigned to the Minister" (Department of Regional Economic Expansion Act, section 5). In carrying out this mandate, the Department of Regional Economic Expansion was to rely on two major tools: the special areas program authorized under the Act creating the Department, and the industrial incentives program, which was given more power and leeway under the new Regional Development Incentives Act and subsequent amendments

than under the previous Act administered by the Area Development Agency. Efforts were concentrated on these two mechanisms of development, and as a result less emphasis was placed on the agricultural and rural development program: during the fiscal years from 1969-1970 to 1974-1975, the Department allocated only \$140 million out of total expenditures of \$2,123 billion to projects financed under that program.

The special areas program was set up to promote the development of urban or rural centres located in regions with a significant lack of productive employment. The areas were designated by federal-provincial agreement for periods generally ranging from four to five years; most of the areas received help in order to correct any shortcomings or inadequacies in infrastructure which could hinder their development. During the period from 1970 to 1973, 20 out of a total of 23 special areas were designated for infrastructure assistance. This type of support made it necessary for the two levels of government to co-operate both in evaluating the projects submitted by the municipalities and in formulating development plans and studies. The federal government, through the Department of Regional Economic Expansion, provided all funds for the programs in the form of grants or loans, while the provinces were generally responsible for implementing them. The designation of special areas gave rise to the formulation of federal-provincial agreements on the development or recovery methods to be used in the areas and the studies to be done. Two committees comprising representatives of the Department of Regional Economic Expansion and the provincial authorities were formed: the first was responsible for examining and reviewing the projects authorized under an agreement and the second for monitoring their implementation.

The industrial incentives program instituted by the Regional Development Incentives Act continued to be aimed at the private investor. Within the framework of the new legislation, measures included incentive grants and loan guarantees to companies to establish, expand or modernize industrial activities in designated areas. Commercial projects were eligible only for loan guarantees. Outside the designated areas, certain special areas became eligible for grants. The industrial incentives program is essentially under federal government jurisdiction, but consultation with the provincial authorities takes place periodically - for example, when a review of designated areas is carried out.

Policy review and the new approach to regional development

Most of the special areas agreements, which lasted four to five years, expired in 1975. On the whole the program had been a valuable experience which was due for evaluation. The detailed policy review that DREE undertook during 1972-1973 led it to establish a different approach to development and to implement new mechanisms of co-operation with the provinces. This policy reform comprised five distinct elements:

- conclusion of general development agreements (GDAs) with the provincial governments, automatically precluding any restriction or limitation on the choice of territories, sectors and measures (provided the agreements contributed to development);
- conclusion of subsidiary agreements concerning the particular activities or areas involved in a GDA;

- establishment of development strategies with an emphasis on identifying and exploiting economic opportunities;
- greater participation by all federal departments, who could become co-signatories to subsidiary agreements in their areas of responsibility;
- decentralization of DREE services; two-thirds of the Department's personnel work outside the National Capital Region in the Atlantic, Quebec, Ontario and Western regions,

The industrial incentives program underwent major changes designed to extend its scope and decentralize the administration involved. Larger areas were designated; the eligibility criteria for financial aid became less stringent; a set formula was established (25 per cent of capital costs and up to 30 per cent of total salaries for one year); and decision-making was decentralized for investments amounting to less than \$2 million or creating fewer than 100 jobs; refundable assistance was made available under set conditions in addition to the other incentive measures such as outright grants and loan guarantees. However, the special areas agreements were not renewed, and when the agricultural and rural development agreements expired in 1975 only four provinces opted in favour of drawing up new ones.

The general development agreements outline a strategy for development in terms of objectives and activity priorities which the federal and provincial governments must jointly endorse. In 1974 the Department of Regional Economic Expansion concluded ten-year GDAs with all the provinces except Prince Edward Island where, as mentioned earlier, a province-wide development plan was still in effect. This began the process of formulating subsidiary agreements, the real means of action, which are used jointly by the Department of Regional Economic Expansion, the other federal departments concerned and the provincial governments. It is through subsidiary agreements

that development strategies take shape, plans of action are implemented and funds are allocated. As of June 30, 1978 a total of 84 such agreements had been concluded with the provinces, representing federal financial commitments of \$2 billion and provincial contributions of approximately \$1 billion.

By signing a general development agreement, the two levels of government seek to meet one of the following objectives: follow up any development opportunities which cannot bear fruit without special intervention by government; fill any gaps or rectify any shortcomings in the economic measures deemed essential to development; or provide a given special area with all facilities or material means necessary for its development. The choice of activities arises from the threefold desire to (1) identify and (2) promote development opportunities and (3) to speed up exploitation of those opportunities.

The number and diversity of the fields covered by a subsidiary agreement are limited only by the GDA. Of variable duration, subsidiary agreements can concern a particular sector or business or a specific area, consider one or more aspects, and propose a broad or narrow range of measures. The rate of federal government financial participation varies from province to province in accordance with provincial economic disparities. Thus in provinces where the per capita income is equal to or above the national average, funding of activities is shared equally between the federal and provincial governments. This is the case for Ontario, Alberta and British Columbia. However, federal financial participation in the implementation of development plans can reach 60 per cent of the cost of measures in Quebec, Manitoba and Saskatchewan and go as high as 80 per cent in Nova Scotia and New Brunswick and 90 per cent in Newfoundland and Prince Edward Island. The rate of

federal government participation can also vary from one agreement to another within the same province, depending on the priority given to the measure by either government. Although funds from the Department of Regional Economic Expansion make up most of the financial contribution (generally several million dollars per agreement), DREE is not the only federal government agency to help finance subsidiary agreements; other federal departments or agencies also contribute, by providing either expertise or money, as long as the measures planned and objectives set are within their competence. There is no standard subsidiary agreement as such. However, certain features are determined during the process of formulating and proposing most agreements: objectives, duration, the situation they are designed to correct or develop, background, the component parts of all projects or programs making up the agreements, the action contemplated, management style and schedules, and the total budget and its breakdown by source (private industry, federal government and provincial government).

Either the federal or a provincial government can initiate preparation of a subsidiary agreement. However, responsibility for putting the agreement into practice, developing it and managing it at the federal level falls to the appropriate regional office of the Department of Regional Economic Expansion. Since its reorganization, DREE has had four regional offices for these purposes (Moncton for the Atlantic provinces, Montreal for Quebec, Toronto for Ontario and Saskatoon for the Prairie provinces and British Columbia) in addition to ten provincial offices (one in each provincial capital) and twelve branch offices in specific areas.

Consultations between provincial governments and decentralized services of the Department of Regional Economic Expansion as well as discussions between these services and other federal departments and agencies are held throughout the preparation and implementation of subsidiary agreements.

Federal-provincial co-operation in the sphere of regional development has gone through a number of stages in the space of seventeen years. Different formulas have been used, the characteristics of which depended as much on the nature of the activities under consideration as on the amount of financial support provided and the existence of other federal or provincial aid programs for slow-growth regions. With the establishment of the Department of Regional Economic Expansion in 1969, the combination of increased federal financial support and the requirements of a program that was more effective and better suited to provincial needs made it imperative to show greater flexibility in the choice of sectors, areas and measures. It was found that the general development agreements, amendable at will by both parties, provided the desired latitude; this approach also made it possible to take into account the regional impact of national policies and involve other federal and provincial departments concerned in establishing and implementing regional development programs.

The general development agreements, which have been in existence for four years, require the co-operation and agreement of the two governments involved for the authorization of specific development measures under subsidiary agreements. Since it is flexible and recognizes the autonomy of provincial governments within their spheres of competence, this approach makes it possible to combine national programs and objectives with specifically regional measures in pursuing the goals of regional economic development. Although this formula is relatively new and its possible

applications have not been completely explored, it has already proved that it can ensure a high degree of federal-provincial co-operation and bring about a large measure of convergence between the regional goals of the two levels of government.

OTHER PROGRAMS FOR REDUCING REGIONAL DISPARITIES

The breadth and complexity of regional development problems in a country as vast and diversified as Canada are due both to varying regional economic conditions and to the fact that regional governments exercise their own legislative and executive powers over areas with widely differing levels of development: per capita income in the richest province is twice that of the poorest province. The most ambitious and dynamic development policies will overcome such difficulties only over a long period of time or if aided by new economic conditions which are equally favourable to the poorest provinces. In the meantime, without additional income, the disadvantaged provinces would not have the financial capacity to provide their residents with the quantity and quality of public services or an income level compatible with the country's economic development and acceptable living standards. Other forms of assistance which go beyond the role assigned to a body such as the Department of Regional Economic Expansion are therefore required.

Transfers to the provinces

Since 1962, assistance in meeting provincial government expenses has been given through federal-provincial agreements reached every four years under the Federal-Provincial Fiscal Arrangements Act. This assistance takes the form of general-purpose or specific-purpose transfers. General-purpose transfers are direct contributions to provincial general revenues, and the provincial governments are free to spend them according to their priorities; specific-purpose transfers are

used to finance joint shared-cost programs for health, education and social welfare. In general, these transfers account for approximately one-quarter of the revenues of the provincial governments and the two northern territories which receive them. The amounts vary from one province to another and they are inversely proportional to the provinces' own tax resources. In the two poorest provinces, they are higher than the provincial revenues as such. The levelling effect of these transfers is due mainly to general-purpose equalization transfers, which constitute between one-quarter and one-fifth of the total. Seven of the ten provinces receive them; approximately one-quarter of the revenues of the Atlantic provinces, which are the four poorest, come from this source. Conditional or specific-purpose transfers also have a certain equalizing effect, but they are available to all the provinces and the offsetting of provincial fiscal disparities is not their prime purpose.

Federal payments to individuals, which represent approximately twelve per cent of domestic revenues, can play a positive role in alleviating provincial revenue disparities in so far as the less privileged provinces have a higher proportion of persons eligible for benefits or allowances from the government. For example, the unemployment insurance benefits program particularly favours provinces where the unemployment level is above the Canadian average and which benefit most from Department of Regional Economic Expansion programs. Transfers to the unemployed represent one-quarter of all federal payments to individuals.

Although they affect only a fraction of the unemployed and account for only two per cent of payments to individuals, transfers made under federal mobility and manpower training programs also reduce provincial income disparities. In the first place, these programs bring about a relative reduction in the number of unemployed in regions where employment opportunities and vacancies are less numerous and wages lower.

Secondly, provinces with high unemployment rates have a larger proportion of workers benefiting from such programs. Present statistics make it possible to measure only this second aspect.

Taken as a whole, federal payments to individuals - the most important of which, other than unemployment insurance benefits, are old age security benefits and family allowances - reach a higher per capita level in the Atlantic provinces, while in Ontario, the Prairie provinces, the Northwest Territories and the Yukon the amount spent per capita is below the national average. Quebec's share is near the average, and British Columbia's portion is slightly above it due to the relatively high number of elderly residents there and the fact that the province's unemployment rate is higher than the Canadian average.

If total federal transfers to individuals and provincial governments are considered and if provincial payments are counted as personal income, the equalizing effect of these measures is even more evident: it is estimated that they reduce provincial income disparities by one-fifth.²

Regionalization of federal measures

Modification of national policies according to regional conditions and the use of sectoral programs for regional development have played only a limited role in alleviating provincial and regional disparities in Canada. It is acknowledged, however, that uniform national policies have disparate regional effects and even serve to increase regional disparities, whereas national or sectoral programs which took regional conditions into account could have a positive impact on future regional development.

² Economic Council of Canada, Living Together: A Study of Regional Disparities, Department of Supply and Services Canada, 1977.

The use of sectoral measures to achieve regional objectives dates from the beginning of Confederation, when the transcontinental railway system was being built. At that time the Western and Atlantic coastal provinces obtained reduced transportation rates on their products. For the Prairie provinces these reductions applied only to rail shipment of grains and flour and inversely, for a limited period, to manufactured goods moving to the West from the central provinces. In the Atlantic provinces, however, the range of subsidized goods included virtually everything produced and at present outgoing shipments of most manufactured goods are subsidized at a rate of up to 50 per cent. In the Prairie provinces, tariffs on the rail transport of grains and grain products have remained unchanged since 1897, when they were subsidized at rates of between 10 and 25 per cent. As a result of the reduced purchasing power of the Canadian dollar, it is clear that such tariffs now contribute significantly to the cost of shipping these products.³

Regionalization of national policies recently reached new dimensions as a result of measures adopted during the last three years. One of these measures involves the decentralization of federal government services and personnel. In 1974 federal authorities initiated a program to decentralize administrative activities and related decision-making power so as to aid disadvantaged regions and bring federal services closer to those who use them. Twenty-four centres across the ten provinces will benefit from the increased federal presence. This measure is well on its way to completion and should serve to strengthen regional economies.

The economic slowdown experienced by Canada since 1974 has more seriously affected provinces already grappling with a high rate of unemployment than the country as a whole. In particular, the gap

³ Economic Council of Canada, *ibid.*

between unemployment rates in Quebec and the Atlantic provinces and rates recorded in the rest of the country has continued to widen. Recovery measures introduced by the federal government since 1975 have not alleviated the recession's impact to the same extent in all regions. Although this is not inconsistent with data on previous recessions, the unprecedented gravity of the unemployment situation called for measures which were better suited to specific regional conditions. Early in 1977 and again in 1978, the federal government modified its investment tax credit program which had been in effect since 1975, increasing the proportion of new capital investments deductible from corporate income tax to 10 and 20 per cent in the regions designated under the Regional Development Incentives Act. The rate is now 7 per cent for other regions. In addition, a new measure came into effect in March 1978, granting an employment tax credit whereby a portion of the wages paid to each additional employee hired by private firms became deductible from corporate income tax. The credit was set at \$2.00 per hour for each new position up to a maximum of forty hours per week in the Atlantic provinces and the Gaspé region, \$1.75 in the other regions eligible under the Regional Development Incentives Act and \$1.50 elsewhere. Finally, the government decided to vary national unemployment insurance eligibility criteria in the light of regional conditions: as a result, workers in regions of high unemployment may receive unemployment insurance benefits after a shorter period of continuous employment than that required nationally.

This is the first time that federal policies to deal with the economic situation have included means other than transfer payments and public works projects to combat regional disparities. At this stage it is difficult to say how much the disadvantaged regions will benefit from these measures. Nonetheless, it seems clear that they lend support to structural recovery and regional development policies at a time when an economic slowdown threatens to neutralize or reduce their impact.

Conclusion

The problem of regional disparities in Canada is such that strong measures are required on the part of the central government. Furthermore, shared responsibilities in regional development matters call for constant co-operation between the federal government and its provincial counterparts. The scope and nature of the programs adopted by federal authorities have been determined by many factors: geographic obstacles to the unification of the national economy; fiscal imbalances caused by the increase in the social expenditures of provincial governments; the worsening state of regional unemployment; the slowness of progress toward equalization of provincial revenues; and finally the varying capacity of provinces and regions to take advantage of national economic policies. Originally determined by particular geographic and demographic conditions, federal activities were later needed to counteract provincial fiscal imbalances, especially from the thirties on, and then to attack the social and economic disparities which were the principal cause of those imbalances. This last, relatively recent phase has led to considerable expenditures through the new Department of Regional Economic Expansion and the implementation of programs which require more participation than ever before on the part of provincial governments.

Experience acquired in regional development, especially since the early sixties, has shown the need for sustained federal-provincial co-operation in devising and applying measures which go beyond established governmental jurisdictions. The original scope of these joint efforts was rather limited, but it necessarily expanded to include types of co-operation which tap all the resources of both levels of government. The general development agreements and recent regionalization of certain national measures illustrate this evolution.



ECONOMIC CIRCUMSTANCES
AND MEDIUM-TERM PROSPECTS BY PROVINCE

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

Department of Regional
Economic Expansion

November 1978



INTRODUCTION

In preparation for the Conference of First Ministers in February 1978, the Department of Regional Economic Expansion produced a report on economic circumstances and medium-term prospects by province. The present report, which constitutes one of several discussion papers prepared by the Government of Canada for the Conference of First Ministers in November 1978, is an updated version of the February report. The revision incorporates the most recently available data, and notes where economic prospects have changed significantly from those anticipated in February.

This report was prepared primarily in the provincial and regional offices of the Department of Regional Economic Expansion. As part of its regular analytical work, the department periodically reports on the current economic circumstances and short-term prospects for the provincial and regional economies. Although economic circumstances at any point in time vary from province to province, many of the major economic development issues have regional dimensions which cut across provincial boundaries. In order to take these into account, regional overviews for the Western and Atlantic regions have been prepared and these precede the provincial reports in their respective sections.

Although each region of Canada develops in its own distinct way, it is nonetheless true that economic activity in particular regions is closely related to economic activity in the country as a whole. Several factors had an overriding impact on the economic events in Canada over the last three years. Generally, the modest cyclical recovery of the national economy which began after mid-1975 slowed somewhat in 1977 with a growth of real Gross National Expenditure (GNE) of approximately 3 per cent for the year. As a consequence, the overall situation in the labour market softened as the average unemployment rate rose from 7.1 per cent in 1976 to 8.1 per cent in 1977. The investment climate remained uncertain and inflation, as measured by the Consumer Price Index, averaged 8 per cent over the same period.

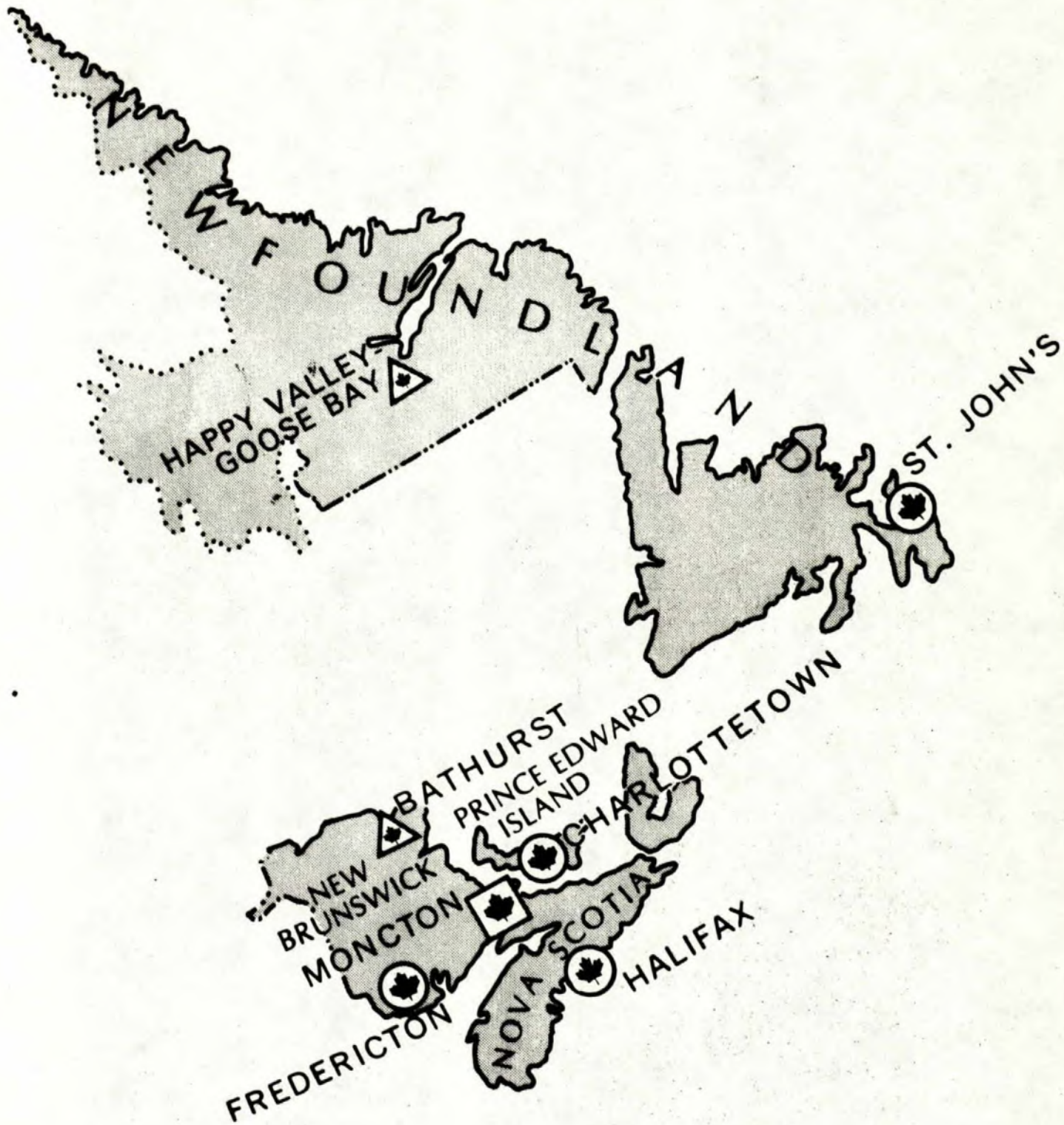
A review of economic conditions over the course of 1978 reveals an improved but somewhat mixed picture. Based on stronger consumer expenditures and a sharp rise in exports, the real rate of growth of GNE could reach 4 per cent. The investment climate for 1978 and the medium-term future also seems to be improving and pressures on domestic prices, particularly of food, are expected to abate. However, despite a growth of employment of over 3 per cent, the unemployment rate is expected to remain high.

While prospects for economic development exist in every province over the medium term, economic performance is not expected to be evenly distributed. The Atlantic provinces have been particularly affected by the recent period of relatively slow growth in the national economy and have lost some of the relative gains which they had made in

the late sixties and early seventies. Nevertheless, the medium-term prospects appear to be improving and the region could experience significant growth during the 1980s if certain promising resource potentials are realized. The Quebec economy continues to suffer from structural problems which have affected the manufacturing sector since the early 1960s. Notwithstanding these difficulties, there have been buoyant periods linked especially with large public undertakings (Expo, Olympics, hydro-electric projects). The 1980s could prove to be a challenging period for the provincial economy as the manufacturing sector adjusts to the changing competitive pressures in the world economy and the city of Montreal redefines its role in the urban hierarchy of the country. Ontario should continue to maintain relatively stable growth based largely on resource development in northern Ontario and manufacturing and higher-order services activity in the south. Real Regional Domestic Product in the four western provinces now exceeds that for Quebec and the Atlantic provinces combined, and the medium-term prospects for the western provinces are encouraging. This growth, however, is not shared equally by all four provinces. Economic circumstances in Saskatchewan and, to a lesser extent, in Manitoba fluctuate according to the returns from agriculture, although the historic situation in Saskatchewan may be expected to become somewhat more stable in the face of on-going resource developments outside the field of agriculture. On the other hand, Alberta and British Columbia can expect above-average growth based on continued resource-related developments.

Although, in general, perceptions of the medium-term prospects in the various regions of Canada have not changed dramatically since the February 1978 edition of this report, a few particular comments are warranted. Overall prospects as described in Quebec and Ontario appear to remain more or less unchanged since they were reviewed earlier this year. In the Atlantic Region, especially in the maritime provinces, the prospects now appear somewhat more encouraging. In the west, the medium-term prospects also appear better, with a slight realignment of the four provinces in terms of the perceived climate for future growth. There is a more optimistic mood respecting Manitoba, and the medium-term prospects in Saskatchewan now look distinctly better. Although the medium term should see a resumption of rapid growth in Alberta, the growth rate may not be as high as might have been predicted a year ago. The medium-term outlook in British Columbia remains much the same as in February.

Each of the provincial reports contained in this discussion paper concludes with a section outlining some of the major economic development prospects for that province. Although every attempt has been made to focus on the significant opportunities in the medium term, it is obvious that additional opportunities to enhance the prospects outlined in this document may well come to light in the future, and, as a result, any listing of this sort cannot be considered exhaustive, nor should it be considered limiting in indicating areas in which the Government of Canada is willing to explore viable development opportunities across all regions of the country.



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



ATLANTIC REGION

OVERVIEW

The economy of the Atlantic Region experienced significant growth during the period 1961-77. Total regional output measured by Real Domestic Product (RDP)* increased by 115 per cent, approximately 10 percentage points lower than Canada as a whole over the same period. On a per capita basis, however, RDP in the Atlantic Region increased faster than that of Canada: 85 per cent compared to 76 per cent.

The Atlantic economy has not been able to avoid the period of relatively sluggish demand currently being experienced in most parts of Canada and, indeed, in most industrialized countries. In recent years, growth has been slower in the region than in the country as a whole.

In 1977, RDP increased by only 1.2 per cent compared to 3.1 per cent for Canada, and it is anticipated that growth for 1978 will be around 1.7 per cent for the region. Forecasts for 1979 suggest a higher growth of about 3.2 per cent for the Atlantic Region.

The Atlantic Region labour force has increased faster than the Canadian average since the early 1970s, as a result of a reversal of migration trends and a rapidly increasing participation rate. Despite a high rate of employment growth, the net result has been an increasing unemployment rate.

Over the medium term, however, the prospects for the region are for a resumption of slightly higher rates of output growth approaching 4 to 5 per cent per year. Prospects for such a recovery hinge on the realization of a number of development opportunities and increased demand both from the rest of Canada and from abroad. Essentially, the medium-term prospects in the Atlantic Region appear to be somewhat more encouraging than those described in the February 1978 edition of this report, especially in the three maritime provinces.

* Current figures and most of the forecasts for RDP come from the Conference Board in Canada.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The Atlantic Region increased its population by 7.2 per cent in the 1971-77 period, only marginally less than did Canada as a whole. During this period, the net migration into the region was in the order of 2 000 persons per year. In July of 1978, the population of the region was estimated to be 2.2 million, an increase of 2.6 per cent from July 1976.

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

Over the medium term, the region may well maintain the current level of in-migration. To the extent that unemployment rates remain high in other parts of the country, out-migration will likely appear unattractive. At the same time, it is possible that a continued trend toward rural living, combined with higher housing costs elsewhere in the country, will tend to encourage some continued in-migration.

Labour Markets

During the 1971-76 period, employment in the region grew at a pace only marginally lower than that of Canada. However, due to the pressures of population growth, the age structure of the population, and a participation rate which increased marginally faster than the national average, the regional labour force grew faster than that of any other region. Consequently, the unemployment rate, which was only 0.8 percentage points higher than that of Canada in 1971, increased to 3.9 percentage points higher than Canada's rate in 1976. In 1977, employment creation grew by approximately 1 per cent, resulting in a regional unemployment rate of 12.7 per cent, some 4.6 percentage points higher than the Canadian average. Although the region appears to have experienced above-average employment gains in 1978, it is expected to lag slightly behind Canada in 1979. The seasonally adjusted unemployment rate for the first ten months of 1978 approached 13 per cent.

Future prospects in the labour market are for continued high unemployment throughout 1979. Decreases in unemployment should occur in the 1979-80 period, when a number of planned projects become operative.

Investment Climate

Investment growth in the 1970s has not kept up with the rest of Canada. Capital expenditures in 1977 were only 58 per cent higher than in 1971,

whereas those for Canada were 130 per cent higher. The region did, however, experience rapid investment growth in housing, trade, finance and commercial services and utilities, all of which more than doubled over the period. On the other hand, manufacturing investment, which had reached a peak in 1971, was 42 per cent lower in current dollars by 1977.

In 1978, on the other hand, capital and repair expenditures in the Atlantic Region are expected to increase by 13.6 per cent, compared to 7.4 per cent for Canada, as a result of significant increases expected in several sectors. Most of the increase in investment, however, is occurring in the public sector, and private investment in the region remains cautious.

Over the medium term, investment is expected to be reasonably stable as a result of a number of approved and proposed major projects. Resource and manufacturing industries should continue to improve. However, the restraint policies of both the federal and provincial governments may moderate this growth.

Sectoral Review

For real output, gains were realized in every sector except agriculture over the 1961-77 period. In terms of the share of total Real Domestic Product, agriculture and forestry declined, and fishing and mining remained stable, while manufacturing and utilities increased. In employment, the service sector's share of total employment grew faster than those of all other sectors, with the primary sector registering a sharp decline.

- Agriculture has been steadily declining in importance, both in terms of output and employment, but this industry is expected to stabilize over the medium term. So far, 1978 appears to have been a moderate year for farmers, although potato receipts are down in some areas. For the first four months of the year, farm cash receipts were 34 per cent higher than for the same period in 1977.
- The forestry sector's outlook has improved in the last year. Demand in the lumber industry has been strong, and newsprint demand showed no sign of weakening in 1978, due partly to the exchange-rate advantage and to strikes in the industry in the U.S. northwest. However, substantial growth is not expected in the industry, as the widespread budworm infestation and heavy exploitation of the resource in the past have reduced the quality and quantity of raw materials available.
- The Atlantic fishery has encouraging growth prospects over the medium to long term as a result of the 200-mile economic zone, and the expected recuperation of stocks. Lobster catches were good in 1978 and prices higher than 1977 levels. European markets are expanding for groundfish and the substantial reduction of the countervail threat in the U.S. has ensured continued access to the American market.

The improved prospects in the fishery are expected to be translated principally into higher incomes and higher productivity for those currently employed in the industry, rather than into regional employment increases.

- The manufacturing sector suffered substantially from the recent slow down. Employment declined by 9.3 per cent from 1974 to 1977. Manufacturing investment has recently increased but it will still take a few years before the sector regains its dynamism of the early 1970s. Over the medium term, a turnaround can be expected in investment, and the region can be expected to profit from the lowering of international tariffs. In the first seven months of 1978, the value of manufacturing shipments increased 14.5 per cent, slightly below the national average.
- The service sector is by far the most important in terms of both real output and employment. In terms of production, its growth performance from 1961 to 1977 was approximately the same as the regional economy as a whole, and in 1977 the sector's share of total output stood at 65 per cent. Employment in services registered the highest increase of all sectors, and by 1977 over 60 per cent of employment was in service jobs. Underlying the growth in employment in services were two major factors. The rise in personal income, in part due to increased transfer payments, led to an increase in the demand for services. Also, the growth in existing government services led to a significant increase in government and government-induced employment. In 1978, retail sales and sales of new motor vehicles increased, indicating moderate strength in the commercial sector.
- All four provinces will likely enjoy growth in the tourist industry in 1978 and 1979. The number of visitors is expected to increase by 10 per cent, and expenditures by 15 per cent. The exchange rate and the use of sophisticated marketing techniques, such as the computerized 'Check Inns' reservation system, have helped to improve operations in this sector.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

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

The importance of the fishing industry is expected to grow as the region takes advantage of the extension of fisheries jurisdiction to

200 miles. Realization of new opportunities generated by the adoption of the 200-mile limit will require involvement of the federal and provincial governments as well as processors and fishermen. Stocks are expected to recover gradually over the next 5 years and selected investment in expansion and fleet modernization may soon be required. Infrastructure improvements, stronger marketing, and shore-based production facilities will all be important to the revitalization of the industry.

If the forestry industry is to hold its own, investments will probably be required according to market demand to modernize some of the older pulp and paper mills and to further rationalize the sawmilling industry. The industry will generally have to adapt to a greater utilization of hardwoods as a result of budworm infestation.

The medium-term outlook in mining is generally favourable. Demand for coal will increase as additional coal-fired electrical generation is introduced. For base metals, the outlook is less promising for the next few years, although the industry in the Atlantic Region may suffer less than base-metal operations elsewhere. For non-metals, prospects appear to be relatively stable.

The outlook for the Atlantic Region's manufacturing industries is for a gradual return to more normal levels of activity. Recent announcements by the steel industry are encouraging. Both fish-processing and ship construction and repair are likely to benefit from the increased opportunities associated with the 200-mile limit. Strength in the agricultural sector is expected to result in gains in the regional food-processing industry.

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

The National Energy Board has given its approval for the construction of a liquified natural gas transshipment terminal at Lorneville near Saint John, New Brunswick. Delay in receiving U.S. approval has, however, placed this project in jeopardy. In the medium term, the high cost of energy will remain a serious constraint to development and a heavy burden on the region's energy consumers. Over the longer term the prospects for hydro and perhaps offshore oil and gas development might present major opportunities.

In summary, most of the medium-term development opportunities in the Atlantic Region are to be found in the natural resources of the area and, in the longer term, in its energy potential.



NEWFOUNDLAND

OVERVIEW

The 1970s have been a period of prolonged slow growth in which the Newfoundland economy has experienced high unemployment. Since 1971 real output growth in Newfoundland has increased by an average annual rate of 2.7 per cent, compared with a rate of 6.6 per cent in the 1960s. Real output actually declined in 1977. Since 1961 growth in personal income has been fairly steady as government transfers to persons have increased from 16 per cent of personal income in 1961 to 27 per cent in 1977. During 1978, a further decline in output is likely, due in large part to the poor performance of the mineral sector, and the unemployment rate has remained high. However, the forecast for 1979 is for a real increase of almost 4 per cent in output, along with a levelling off in the unemployment rate.

Looking to the medium term, the economic picture appears somewhat brighter than it did in the recent past, but a number of structural problems remain to be solved. Growth in the provincial economy is expected to improve over the next five years, although it will not attain the 6 to 7 per cent levels experienced in the 1960s. The traditional large-scale federal transfer payments, along with the provincial government's operational expenditures (financed in part by long-term borrowing), are likely to be affected by the present policy of restraint by both orders of government. This might limit the prospects for expansion in the medium term. Moreover, private enterprise may hesitate to invest until the uncertainty about the long-run supply of energy in the province is resolved. These adverse factors are likely to be counteracted somewhat by the promising prospects for the fishing, mining and forestry industries forecast for the next five years. Essentially, these perceptions have not greatly changed since the February 1978 edition of this report.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Newfoundland's current population is approximately 570,000. Its population growth since 1961 has remained fairly constant, averaging 1 to 1.5 per cent a year, compared with 1.5 for Canada as a whole. No significant change is expected in this growth rate in the near future. Newfoundland continues to have an age structure characterized by a high dependency ratio. Almost one-third of its population is below the age of fifteen.

Labour Markets

During the past several years the labour situation in Newfoundland has been dominated by growing unemployment. Since 1970 the labour force has increased 39 per cent to 198 000 in 1978. However, the growth of new job opportunities has not kept pace and, as a result, the unemployment rate has risen from 13.6 per cent in 1976 to almost 16 per cent in 1977, and is expected to approximate 16.6 per cent in 1978. The labour force participation rate in Newfoundland has increased from 43 per cent in 1970 to 51 per cent in 1978, but is still well below the national average of 62 per cent. The labour force is expected to increase by 3.6 per cent from 1977 to 1978, an increase marginally smaller than the national average. Average weekly wages and salaries rose 2.7 per cent from 1977 to 1978 but are expected to rise faster in 1979.

Investment Climate

Since 1971 public and private capital expenditures have increased at an average rate of 4 per cent per annum. The construction industry and utilities were especially hard hit by a general decline in investment over the last two years. Major energy-related projects point to a brighter future in 1979 and over the medium term.

Sectoral Review

- The volume and value of fish landings were up substantially in 1977 despite a trawlerman's strike which affected most of the island during the first part of the year. Landings for the first eight months of this year were up 7.9 per cent, mainly as a result of strong performance in the offshore fishery. Prices on world markets are strong and, as a result, the value of landings during this period has increased 25 per cent compared to the same period last year.
- Pulpwood production for the first seven months of 1978 was down over 20 per cent compared to the same period last year. However, Bowaters Limited and Price Newfoundland Limited are currently

operating at full capacity and it is anticipated that production of paper and related products should reach last year's level. The outlook for 1979 is for a continuation of relatively high levels of activity in the industry.

- Mineral output in Newfoundland experienced considerable gains over the past several years. However, the labour dispute at the Iron Ore Company of Canada in early March of this year severely affected the industry in the province. The work stoppage lasted four months and involved 2 300 employees of the Iron Ore Company and an estimated 2 000 related workers. Combined with depressed world markets, the result is expected to be a decline in mineral production of close to 25 per cent in 1978. On the positive side, zinc production is remaining steady, and prospects for 1979 for the mining industry are encouraging.
- The value of manufacturing shipments during 1975-77 declined as a result of the closures of the Come-by-Chance Oil Refinery and the Labrador Linerboard Mill. Active prospects exist for the reopening of both these facilities. But even in their absence, growth in the total value of shipments resumed normal patterns during the second half of 1977, resulting in a 13 per cent overall increase for that year. This pattern continued for the first seven months of 1978: the value of shipments increased over 19 per cent compared to the same period last year. The value of real manufacturing shipments is expected to increase by approximately 3 per cent in 1978.
- Construction activity was severely depressed in Newfoundland in 1977 with overall construction expenditure down by almost 20 per cent and housing starts down by 41 per cent. To a large extent this decline reflects the fact that the province's long-standing housing shortage has been filled and the industry is now operating at more normal levels of demand. Total construction expenditures are forecast to drop by only 4.5 per cent this year, as the impact of the decline in residential activity is softened by an increase in the non-residential sector. Activity in the sector is highly dependent on major government programs such as the renovation of wharf, ferry and dock facilities and the upgrading of the Trans-Canada Highway.

Sub-Provincial Circumstances

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

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

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

Improvements in the markets for pulp and paper products in the United States and other foreign countries have resulted in high levels of production for the province's two paper mills. Since contracts for the sale of paper products are made in foreign currencies and are long-term in nature, the continued decline in the value of the Canadian dollar has meant a comparative increase in revenues for the two producers. Consequently, the short- to medium-term outlook is good. There also are opportunities to expand the sawmilling industry, subject to a rationalization of its production and marketing operations.

The future continues to hold promise for increased mineral production. The most recent expansion of the Iron Ore Company of Canada facilities in Labrador City has been completed, and there are extensive unexploited iron ore deposits. The demand for iron ore is expected to strengthen in the future, which will more than offset the losses sustained in 1978. The exploration for gold near Port aux Basques is still in the initial stages. Similarly, the uranium deposit near Makkovik may be developed in the medium-term future. Mineral production elsewhere in Newfoundland may experience some setbacks, and adjustments may be required in certain mining communities in the short and medium term.

Despite the serious setbacks of recent years, the short- and medium-term prospects for the manufacturing sector are moderately encouraging, due mainly to a turnaround in the fortunes of the fishing and paper industries which form the basis of the this sector.

Although construction activity fell during 1977, and again in 1978, the outlook for 1979 is somewhat brighter. A turnaround is expected in residential construction and a number of private sector projects are scheduled for 1979. Utilities spending and construction activity is expected to improve with the beginning of work on the \$80 million hydro project at Hind's Lake in central Newfoundland in 1978-79.

Further improvements on the construction scene may occur in the next few years with the planned additions to the thermal-generating plant at Holyrood.

The development of energy resources is seen as a key to economic growth in the province. It and the possibilities of offshore petroleum and minerals represent the major issues of concern for the future development of Newfoundland. The provincial government has been considering the development of the hydro-electric potential of the lower Churchill River (the Gull Island hydro project) although no final commitment has been made. In the meantime, generating capacity is being expanded at existing thermal plants.

Potential offshore petroleum is considered to be a promising natural resource for the province. Industry reports suggest that if commercial finds are confirmed, production may be possible within the next decade. Although oil and gas exploration was stalled in 1977 awaiting settlement of jurisdictional problems, exploration activity resumed in 1978 and should continue to increase in the medium term. Considerable spinoff effects are expected for the short and medium term in the areas of marine services, shipbuilding and repair, and transportation and ancilliary services.

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

There may be medium- to long-term development opportunities associated with Newfoundland's marine tradition and "North Atlantic Gateway" location. For example, Newfoundland and the U.S. National Aeronautics Space Administration (NASA) are developing plans for a global weather report read-out station at Sheer Cove, 15 miles from St. John's. The Newfoundland Ocean Research and Development Corporation (NORDCO) will administer the contract. An ice research institute, involving an initial investment of \$35 million, is slated for the medium term.

On the whole, Newfoundland's prospects for development in the medium- and long-term future appear to stem from its marine resources and its energy potential.



PRINCE EDWARD ISLAND

OVERVIEW

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

Real output grew by about 2.3 per cent in 1977, compared to about 3 per cent for the country as a whole. Indications are that real output will increase by 4.1 per cent in 1978, a rate higher than all provinces but Alberta. Both wages and salaries and personal disposable income grew more slowly in 1977 than in 1976. Personal income grew by only 7.2 per cent (compared with 9.6 to 10.7 per cent in the other maritime provinces). Preliminary estimates suggest that in 1978 the growth of personal income will continue to lag behind that of the other maritime provinces.

The prospects for the medium term are for moderate growth based on the manufacturing sector, particularly food-processing, and the service sector. The size of the working-age population in Prince Edward Island is expected to grow at a slower rate through 1978-85 than it has during the past five years. The significant increase in participation rates which contributed to the rapid advance of the labour force is also expected to slow considerably. In the medium term, therefore, the employment situation may improve, although in 1979, the unemployment rate is expected to remain around the 10 per cent mark. The modest expectations for growth over the medium term have not changed appreciably since the February 1978 edition of this report.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The population of the Island in 1971 was 111 600, and approximately 122 000 in July 1978, an increase of about 9 per cent. A large part of this increase was caused by migration into the province; the Island's rate of in-migration has increased considerably in recent years. Most of the population growth occurred around the province's major centres, Charlottetown and Summerside.

Labour Markets

The labour force expanded from 44 000 in 1971 to 52 000 in 1978, an increase of 18 per cent in the seven-year period. The expansion in the labour force this year is larger, in relative terms, than the increases in the neighbouring provinces of Nova Scotia and New Brunswick. P.E.I.'s participation rate of 58 per cent in 1978 is the highest in the Atlantic Region. Similarly, the female participation rate is higher than in the other Atlantic provinces.

Despite the fact that moderately strong employment growth took place in both 1977 and 1978, it was outpaced by the growth of the labour force, so that the average annual rate of unemployment in 1977 was 10 per cent. It is expected that the 1978 rate will not change appreciably.

Investment Climate

New investment in buildings and machinery increased dramatically from 1969 to 1973, reflecting major expenditures in housing, government and institutional categories. After 1973, investment expenditures slowed down, due mainly to a sizeable cutback in housing construction. Investment during 1977 picked up substantially in the public sector but was relatively weak in the private sector, especially in manufacturing and utilities. Preliminary indications are that the investment climate is cautiously optimistic in 1978 and is likely to remain so for 1979.

Sectoral Review

- The agriculture sector has shown a significant improvement in recent years but some setbacks occurred in 1977 and 1978 compared to the record harvest year of 1976. Low prices for the 1977-78 potato crop resulted in a decline in farm incomes in the first half of 1978. The potato crop declined slightly again this year, but it is expected that this decline will be compensated by improved prices in other agricultural commodities. P.E.I. farmers, therefore, will likely count 1978 as a fairly good year. Processing facilities for the potato crop have expanded in the past year, and are taking a larger share of the crop than in the past, adding some welcome stability to the farm sector.

- Prospects are brighter in the Island's fishing industry. The P.E.I. industry is heavily dependent on one species, lobster, which is being fished at its maximum sustainable yield of approximately 11 million pounds per annum. Lobster accounted for 65 per cent of the total landed value of all fish in 1977. The value of fish landings in 1977 was \$14.6 million, and \$11 million through the first 8 months of 1978. In 1978 the lobster catch was good and prices and demand were high.

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

- It appears that the Island is gradually recovering from the decline in tourism experienced in 1976. In 1977 there was a real increase in tourist spending of 1 to 2 per cent. Revenue is expected to be higher again in 1978. The depreciation of the Canadian dollar will no doubt help the Island's tourism sector.
- The food- and fish-processing industries account for over 70 per cent of total manufacturing value-added, so that the decline in output in 1977 in the agriculture and fishing sectors had a significant impact on the manufacturing sector. In 1978, the moderate year in agriculture combined with the encouraging year for the fishery provides some indication that significant growth will be realized in the manufacturing sector.
- Since 1974 initiatives have been undertaken to diversify the industrial sector on the Island. A number of new establishments which will produce and market higher-technology products have located in Charlottetown. New industrial malls have been built in Charlottetown and Summerside to house a number of these smaller firms. Further developments of this sort are expected to continue for the next few years.
- The construction industry has been making a substantial contribution to the growth of the Island economy. Housing starts in 1977 were down from 1976 levels but preliminary data indicate that residential construction has increased substantially in 1978. P.E.I. is the only Atlantic province to show gains in housing construction this year. Non-residential construction has made gains as well, in part due to the large Harbourside project in Charlottetown.
- The service sector has been a source of strength to the Island economy in 1978, due mainly to an increase in levels of trade,

although gains are also anticipated in community, business and personal services. The growth in the service sector is expected to be smaller in 1979 because of an expected slowdown in trade.

Sub-Provincial Circumstances

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

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

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

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

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

Revitalization of the city core and waterfront area in Charlottetown is now well underway. The Confederation Court project began in the spring of 1978 and will end in late 1979, resulting in considerable retail and office expansion in the city core. Total

project costs are \$8 million, with total direct new jobs exceeding 100. Although largely privately financed, there is some government investment through the Comprehensive Development Plan.

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

The wide range of present and future opportunities suggests that the Island's development prospects are brighter and more diversified than they appeared to be a few years ago.



NOVA SCOTIA

OVERVIEW

Real Domestic Product in Nova Scotia grew by 1.4 per cent in 1977, compared with 3.1 per cent nationally. Some recovery is forecast for the province in 1978 with an expected growth rate of 3.4 per cent. The slowdown in the provincial economy in 1977 is attributed primarily to weaknesses in agriculture, construction, utilities and the service sector. In the manufacturing sector, performance of the shipbuilding industry was also weak. Growth in 1978 appears to be the result of an increased strength in most of the goods-producing industries and of increased export sales. However, the unemployment rate will remain above 10 per cent in 1978.

The medium-term prospects for the provincial economy are somewhat encouraging, as the aggregate investment outlook is relatively promising. A number of announced major projects, primarily government-initiated, should be well underway and by 1980 their combined effect should help to ease the unemployment situation. Moreover, circumstances in the shipbuilding and steel industries are more favourable than at the time that the February 1978 edition of this report was written. A new owner has begun to alter the direction of the Halifax Shipyards, and the Sydney Steel Corporation was awarded three major mid-term contracts which will result in increased employment. Overall, economic growth should be closer to the national average than has been the case in recent years.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The Nova Scotia population grew by 6.6 per cent during the 1971-78 period, compared with 8.9 per cent for the nation as a whole. Most of this growth took place in the province's central counties, although a few of the more geographically extreme counties showed surprisingly large percentage increases. The population of the province has now reached 842 000.

Much of the growth has occurred outside the urban centres, resulting in an increase in the percentage of the population living in rural areas. Factors supporting such a shift have been the reversal, since 1971, of substantial out-migration from the province to a net in-migration position, lower property taxes, and improved highway access from rural residential areas to urban centres with better employment opportunities.

Labour Markets

Over the past few years, the rate of job creation has declined. The level of employment remained constant between 1975 and 1976 and increased by 1 per cent in 1977. During the same period, however, the labour force increased by 13 000 persons. Consequently, the unemployment rate has risen from 7.8 per cent in 1975 to 10.7 per cent in 1977. However, in the first nine months of 1978, the unemployment rate averaged 10.6 per cent, while employment grew by 3.2 per cent.

In parts of the province, unemployment reached very high levels. In northern Nova Scotia, for example, the average for the first nine months of 1978 was 12.8 per cent, and in Cape Breton, 15.8 per cent.

Investment Climate

Institutions and governments have always accounted for a sizable portion of capital investment in Nova Scotia. Since 1961 their share of total investment has never dropped below 20 per cent, although in the early 1970s, there were signs of a decrease in the dependence on these sources.

However, following the 1974 slow-down, the climate for private investment weakened considerably. Manufacturing investment declined in 1975 and 1976 and began to show signs of improvement only in 1977. The private sector investment climate remained cautious in 1977 but a turnaround is occurring this year due primarily to increases in the primary, manufacturing, institutional and government sectors. Housing construction remains at a relatively low level but substantial construction activity is expected in the non-residential sector.

Sectoral Review

- Sizable increases in cash receipts from pork, dairy and poultry were the highlights in agriculture to July of 1978. The good summer and fall weather should mean an increase in farm cash receipts compared to the generally depressed figures of 1977.
- Fisheries had an excellent first half of the year in 1978 so that quotas will be a limiting factor for the rest of the year. Prices are expected to remain high as markets continue to be strong. The potential of the 200-mile limit may be beginning to have its effect on fleet modernization and expansion of fish plant capacity.
- Forestry remained stable during 1978. Pulpwood production increased 8.2 per cent in the first half of the year while sawn lumber production was below the strong 1977 performance. However, the depreciation of the dollar is expected to significantly increase export demand in this sector in the last half of the year.
- Performance of the mining sector has been better than the national average in 1978 although the increase in output was not as great as was earlier expected due to a slowdown in the opening of the Stellarton strip-mining facility. Output is expected to increase in Nova Scotia by 1.7 per cent, compared to an anticipated decline of 4.8 per cent in Canada as a whole.
- The value of manufacturing shipments to September of 1978 increased by an impressive 18.2 per cent compared to 15.5 per cent for Canada. Most of the growth was in food and beverages, metal fabricating, electrical products and petroleum and chemicals. Pulp and paper and other exporting industries are expected to benefit from the lower value of the dollar. Steel and transportation equipment have improved over the past year.
- The construction industry is forecast to advance beyond the corresponding national rate of growth in 1978. Housing starts are not expected to exceed those of 1977 but substantial gains are expected in the non-residential sector. Non-residential construction is benefitting from a number of large projects across the province, and especially in the Halifax-Dartmouth area.
- Output of the service industries has improved. In particular, retail sales showed a marked improvement up to July of 1978 due, in part, to the reduction of the provincial retail sales tax until October. Tourism strengthened in 1978, partly because of the decline of the Canadian dollar.

Sub-Provincial Circumstances

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

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The manufacturing sector is expected to experience a mixed performance over the medium term. The shipbuilding industry has begun to show signs of stabilization with a new owner and a new direction indicated for the Halifax Shipyards. The Trenton rail-car works has a more optimistic short-term outlook following an announced \$40-45 million Venezuelan rail-car contract. The Michelin Tire plants located in the province continue to provide a stable source of employment and income. A recent expansion brings the work force up to 3 000 from the initial 1 000 employed in 1971.

The Sydney Steel Corporation, with three major contracts, has stabilized its position at least for the medium term. Employment has increased to 2 400 from 2 250 and has prospects of expanding to and stabilizing at 3 000 if production increases to meet the contract requirements. This expanded production will, however, depend on a major capital rehabilitation in the order of \$150 million.

The record amount of mineral exploration in the last four years, along with the rise in the fortunes of the coal industry, signal encouraging prospects for the mining sector. Announcements concerning a \$100 million underground coal mine at Donkin and a \$165 million revitalization of the No. 26 Colliery by DEVCO indicate encouraging prospects for this industry. The opening of a lead-zinc mine at Gay's River by early 1979 will create 150 new jobs and increase the importance of metals to the mining sector. Gypsum should maintain its importance as the province's second contributor to the value of mineral production.

Non-residential construction projects, such as the \$250 million in defence spending announced for the Halifax-Dartmouth Metro area, the new container pier, the Quinpool Road development and the Halifax-Dartmouth Waterfront development project will, as they proceed, have a positive effect on construction employment.

The agriculture and forestry sectors will continue to exhibit only modest growth in the medium term. The Canada/Nova Scotia subsidiary agreements are anticipated to involve some \$67.3 million over the next

five years and will help to create more efficient production units. These efforts will also encourage wood-fibre production in the forest industry, thereby contributing to the stabilization of employment in both of these sectors.

Although the fisheries sector has moderate long-run growth potential with the establishment of the 200-mile limit, large-scale growth is not anticipated for the next few years. Stocks are not expected to recover fully before 1985. However, some investment in expansion and fleet modernization may begin prior to this date. Market development, technological adaptation, and resolution of the Canada-U.S. marine boundary question are among the issues facing the fisheries sector in the medium-term future.

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

Output in the utilities sector is expected to increase by approximately 3.5 per cent in 1978 as the first of two installations of the Wreck Cove hydro project has recently been initiated. Nova Scotia currently has the second highest electricity costs in the nation. Some convergence with the national average is expected in the next few years as the province moves away from its dependence on imported oil and increases its use of Nova Scotia coal for thermal generation. In the medium term, however, energy costs are expected to remain a serious constraint to development in the province.



NEW BRUNSWICK

OVERVIEW

During the past two years, the growth of the New Brunswick economy has been below the Canadian average. Employment grew by 1.3 per cent in 1976, compared with 2.2 per cent for Canada, and output grew by 3.7 per cent, compared with just less than 5 per cent nationally. Very little employment growth was registered for 1977, while an increase for Canada of approximately 2 per cent was recorded. In 1978, economic activity in the province appears to have accelerated as employment is expected to increase by 4.5 per cent.

This recent performance has been disappointing compared with the 1971-75 period when real output and employment growth generally exceeded that for Canada. The progress made in the first half of the 1970s towards reducing income differences between New Brunswick and the country as a whole has not been sustained. Earned income per capita, which rose over the 1971-75 period to reach 71 per cent of the Canadian average, fell back in 1977 to approximately the 1971 level of 68 per cent.

Capital investment has declined slightly in real terms since 1975, but remains historically high as a result of investment in utilities. New capital investment in manufacturing, however, has declined from its peak in 1975. The overall growth in capital expenditures in 1978 is expected to be 14.3 per cent in current dollar terms while manufacturing investment should increase by 19.7 per cent. Over the medium term, the expected large investments in mining and energy-related projects should bring New Brunswick close to national growth rates. The outlook for the province's agriculture, fishing, mining, and related processing and supply industries is for growth rates in excess of recent trends. However, because of the pressures from a

rapidly growing labour force, it may well be several years before employment growth exceeds labour-force growth on a sustained basis. In the near future, moderate improvement can be expected in the rate of unemployment compared to that experienced in 1977 and most of 1978. These perceptions are therefore more encouraging than those stated in the February 1978 edition of this report.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The current population of New Brunswick is approximately 696 000. Over the 1971-78 period, New Brunswick, with a positive net in-migration, experienced a population growth rate higher than the Canadian average. This is a marked turnaround from the historical trend whereby the province consistently lost population to other parts of Canada. The recent net in-migration, however, appears to have tapered off since 1975. The age distribution of the population remains biased towards the non-working age groups, resulting in a higher dependency ratio than the Canadian average.

Labour Markets

In general, employment growth has not kept pace with the growth of the labour force during the 1970s and the unemployment rate has more than doubled from 6.2 per cent in 1971 to 13.4 per cent in 1977. Over the 1970-75 period, employment grew at historically high rates but the labour force, swelled by young entrants, in-migration and increased female participation rates, grew even faster. Although the rate of growth of the labour force has moderated somewhat, the very low rates of employment growth of 1976 and 1977 have resulted in a dramatic increase in unemployment. During the first nine months of 1978, the unemployment rate averaged 13 per cent on a seasonally adjusted basis. However, there have been some recent encouraging signs. The rate of job creation in 1978 is expected to be in excess of 4 per cent, compared to the national average of 3.2 per cent.

Investment Climate

Investment in the New Brunswick economy grew steadily over the early 1970s, reaching a peak in 1976. However, expenditures in 1977 have fallen slightly from the 1976 level in real dollar terms and the pattern across sectors has become quite uneven with utilities accounting for a disproportionately high share of new capital spending.

In 1978 there was some improvement in investment performance in most industrial sectors. Major increases are expected in energy-related activities, manufacturing, trade and commercial services.

Sectoral Review

- Farm cash receipts were down 10.3 per cent between April 1977 and April 1978, due mainly to a decline in potato receipts. For 1979, a slight increase is projected in livestock production, while other commodities are expected to maintain 1978 levels. The medium-term outlook is for significant growth in agriculture and its related sectors. This growth forecast is partially based upon increased local production for local consumption as well as for sales outside the province, particularly in such products as seed potatoes, processed potatoes, and fresh and frozen fruits and vegetables.
- The New Brunswick mining industry recorded only very minor decreases in real output in 1978. In relative terms, this is an impressive record, as base-metal mines elsewhere suffered major setbacks due to the decline in world markets. The prime reason for the relative strength of the New Brunswick industry is the fact that lead, a major component of New Brunswick's non-ferrous metal production, is one of the few metals for which demand and prices have remained buoyant. Moreover, long-term contracts have helped to sustain the industry in the face of the short-term decreases in markets for many base metals.

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

The base-metal reserves of northeast New Brunswick are considered to be of sufficient size and quality to support a refinery, but it will not likely be established in the near future because of the depressed international market for zinc.

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

- Output growth in manufacturing has generally outpaced the Canadian average from 1971 to 1975. The strength came primarily from the traditional resource-based sectors of pulp, newsprint, lumber and food products.

The weak domestic and international conditions of the 1976-77 period have resulted in the loss of most of the gains in non-resource-based manufacturing made over the 1971-75 period. Closures and layoffs have resulted in a net decline of 2 000 manufacturing jobs from the 1975 level. Forecasts for 1978 and 1979 suggest a slight improvement over 1977 performance.

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

- The construction sector is expected to grow by 2 per cent in 1978 and 7 per cent in 1979, which is somewhat better than the expected national average. In 1978 most of the growth is expected in the housing sector, whereas in 1979 growth is expected to occur in non-residential construction.

Sub-Provincial Circumstances

There is a well-established trend for the bulk of economic growth in New Brunswick to take place in the southern urbanized parts of the province. Over the 1971-76 period, the disparities in income and employment levels between the northern rural regions and the southern urban regions widened dramatically. However, there is some evidence to suggest that the disparities in employment levels have lessened somewhat over the last two years.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

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

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

In forestry and forest products, the provincial industry has relatively low wood costs. The annual allowable cut, however, is now almost fully utilized. In the medium term there are opportunities in logging to increase productivity through accelerated mechanization and labour training. There is also an opportunity to increase the annual allowable cut from New Brunswick forests over the longer term through

intensive forest management. Opportunities in pulp and paper, given appropriate market developments, relate to the need to modernize and rationalize the processing plants to improve efficiency and allow a better use of the available resource. In the lumber sector, opportunities exist to improve efficiency through improved small-log-processing techniques and to develop products which utilize the smaller logs.

New Brunswick possesses rich and extensive deposits of base metals, potash and peat moss. Furthermore, most mineral deposits have the advantage of proximity to tidewater. There is an opportunity to increase the mining and processing of lead and zinc. There is also an opportunity to increase the mining and processing of the peat moss resource. In particular, peat moss has potential as a feedstock for power generation. The major constraint for peat moss is a lack of detailed knowledge as to the size and quality of the resource, while the major constraint in base metals is the currently depressed market.

The province possesses the advantage of a deepwater port and a strategic location between Europe and the United States. There is an opportunity significantly to increase port and port-related activities at Saint John. This, however, will require investment to upgrade facilities for cargo handling and cold storage. The prospects facing the shipbuilding sector are fairly bright and are related to the construction of ice breakers for use in the Arctic and the construction of liquefied natural gas (LNG) carriers. The major constraints here are the inadequate size of existing facilities, the lack of international cost competitiveness of Canadian shipyards, and the depressed world shipbuilding market. The Saint John Shipbuilding and Dry Dock Company recently indicated that it was about to embark on a major expansion of its facilities. This project will be assisted by federal financing of \$10 million.

New Brunswick's prospects, therefore, depend primarily on the construction and modernization of infrastructure, improvements in marketing, and the realization of potential new uses of existing resources.





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



QUEBEC

OVERVIEW

Following its low level of performance in 1977, the Quebec economy in 1978 has been showing signs of stronger growth, especially since the second quarter of the year. Real domestic product is expected to increase by 3.0 per cent in 1978 compared with 2.1 per cent in 1977. Manufacturing shipments increased by 18.5 per cent during the first six months of the year. The depreciation of the Canadian dollar, quotas on textile and leather imports, and the reductions in retail sales taxes have helped to support a degree of recovery in the manufacturing sector.

On the less positive side, mineral production and construction activity continue to decline for the second year in a row, and investment in 1978 is expected to grow at only 4.7 per cent over 1977, its lowest rate of increase in the last decade.

Employment growth in 1978 will be slightly less than 2 per cent. Although this represents an increase from the 1 per cent increase recorded in 1977, it is relatively low compared with the 3.2 per cent growth anticipated for Canada as a whole. Labour force growth is expected to be about 2.8 per cent and thus will outstrip employment growth by a significant margin. As a result, the unemployment rate is not likely to improve from the 10.3 per cent recorded in 1977.

In short, the performance of the Quebec economy, though improved from 1977, continues to remain below that of the country as a whole. Since the mid-1960s there have been few years in which the growth of the Quebec economy has matched that of Canada. As a result of this slower growth in real domestic product and employment, Quebec's share of national output has diminished.

The relative weakness of the Quebec economy is partly due to the fact that its industrial structure is characterized by dependency on a few traditional labour-intensive activities (textiles, clothing, footwear) which are experiencing increasing international competition from low-cost producers, and partly due to the relative decline of Montreal as a major North American industrial and financial centre. Furthermore, the completion of projects related to the Olympic Games and Mirabel Airport, have reduced construction activity. As a result, the Montreal region now employs about 15 000 fewer people than in 1975. The slight recovery in the Quebec economy this year is expected to increase employment in the Montreal region by approximately 10 000, but this is not sufficient to compensate for the losses already incurred. Consequently, the unemployment rate in Montreal is likely to average over 10 per cent in 1978.

In general, it appears that the moderate growth which has been achieved in recent months should continue in 1979. Growth in real domestic product in 1979 is expected to be slightly above 3.0 per cent and employment growth should be in the range of 1.0 to 1.5 per cent.

ECONOMIC CIRCUMSTANCES

Demographic Trends

In mid-1978 the population of Quebec stood at 6.29 million, an increase of less than 7 000 from the same time in 1977. This represents the smallest rate of population increase (0.1 per cent) Quebec has ever experienced. In contrast, Ontario's population growth over the same period was 1.1 per cent. Moreover, Quebec's annual population growth has been below 1.0 per cent throughout the 1970s. As a consequence, Quebec's share of the Canadian population has declined from 28.5 per cent in 1969 to 26.8 per cent in 1978.

This low rate of population growth has been the result of a steady decline in the birth rate since 1969 and substantial net out-migration. This out-migration was most pronounced in 1970, 1973, 1977 and 1978. Indeed, in 1978 net out-migration has surpassed 40 000.

Labour Markets

Conditions in the labour market have remained poor since the third quarter of 1976. The unemployment rate rose from 8.2 per cent in mid-1976 to an unprecedented high of 11.4 per cent in the second quarter of 1978 despite some improvement in job creation since the beginning of the year.

During the first three quarters of 1978, the labour force increased at an annual rate of 3 per cent, reaching 2.9 million in the third quarter. This represents an increase of 85 000 persons, 75 per cent of whom were women. The female participation rate continued its upward trend, while that for males remained virtually unchanged during 1978.

Although employment growth has not kept pace with the labour force growth, it has, nevertheless, shown significant improvement over the previous two years. Employment growth in 1978 is expected to equal 1.9 per cent which, although markedly improved, remains well below that projected for the national economy (3.2 per cent).

On balance, the employment growth will not be sufficient to reduce the number of unemployed, which is projected to increase from 288 000 in 1977 to 326 000 in 1978.

Investment Climate

In comparison with the second half of the 1960s, investment showed a distinct improvement between 1971 and 1975 with the average annual growth rate of capital investment reaching 20 per cent. This was higher than the rates for Ontario and for the country as a whole. As a result, Quebec's share of capital investment in Canada rose from 19 per cent in 1970 to 24 per cent in 1975.

However, since 1976, capital investment in Quebec has not maintained its earlier growth. Despite a marked rise in public investment, the 1977 increase stood at 10.2 per cent. Canada and Ontario recorded rates of 6.5 per cent and 4.3 per cent, respectively. Furthermore, for 1978, Quebec's rate of increase in capital investment is expected to be 4.7 per cent, well below that for Ontario (7.0 per cent) and for the country as a whole (7.4 per cent). The lower rate of capital investment is especially pronounced in primary industries and in construction where a decline of 25.5 per cent in relation to 1977 is anticipated. On the other hand, capital investment is much stronger in the public utilities sector where, as a result of Quebec's hydro investment, a 25.4 per cent increase over 1977 is expected. Similarly, a 20.7 per cent increase is projected for the manufacturing sector with growth expected to be strongest in the metal products industries, chemicals, petroleum and coal derivatives and primary metal processing.

On balance, capital investment in Québec has been characterized by growing public sector involvement. The share of public investment (federal, provincial, and municipal) has grown from about 32 per cent prior to 1975 to 43 per cent in 1977, and is projected to exceed 45 per cent in 1978. In contrast, the share of public investment for the country as a whole has remained around 33 per cent since 1975.

Sectoral Review

- In 1978, and notably in the second quarter, the Quebec economy showed some signs of recovery. In 1977, only the tertiary sector experienced gains in employment and now accounts for 67 per cent of total employment. Conversely, employment in manufacturing declined by nearly 30 000 in 1977. While the tertiary sector continued to grow in 1978, employment in the manufacturing

industries showed renewed strength. In contrast, employment in construction declined for the second consecutive year.

- Farm cash receipts increased by 16 per cent during the first seven months of 1978 over the same period in 1977. However, farm operating costs have continued to rise in real terms and as a result, net income of farmers is expected to increase by only 3 to 4 per cent in 1978. Employment in agriculture, which had declined in 1977, should this year return to its 1976 level of 74 000.
- The low exchange value of the Canadian dollar has had a strong and positive impact on Quebec's forest product industries. Pulp and paper mills are operating at capacity levels and shipments during the first six months of 1978 increased by 17.3 per cent over the same period in 1977. Pulpwood production has increased by 19 per cent. Furthermore, it is anticipated that investment in the forest industry in 1978 will equal \$22.2 million, a rise of 42.3 per cent over 1977. United States demand for lumber has also been strong for the second consecutive year. Indeed, shipments in the first six months were 35 per cent higher than they were during the same period in 1977. Employment is expected to rise by 6 000 in the forest-related industries.
- The mining industry in Quebec is going through a difficult period. In 1977, shipments declined for eight metals. In particular, shipments of copper and iron ore declined by 4.2 per cent and 53.3 per cent respectively. The long strike at the Iron Ore Company mines accounts for much of the sharp decline in iron ore shipments. Following an increase of 54.4 per cent in 1976, asbestos production fell by 4.4 per cent in 1977, and by 10.8 per cent during the first seven months of 1978. Weak international markets, exacerbated by large surplus stocks of many metals, account for the difficult position of the mining sector. As a result, a sharp drop in investment has taken place. Indications are that during 1978 there will be a decline of 56 per cent in capital investment. Employment will experience no growth, remaining at 29 000.
- In 1961, the manufacturing sector accounted for 36.5 per cent of Quebec's employment; by 1977 this proportion had fallen to 28.4 per cent. This decline can be partly attributed to the adjustment problems confronting the traditional labour-intensive sectors. However, as a result of the combined effect of import quotas on textile and leather products, the sales tax cuts in Quebec and other provinces, the lower value of the Canadian dollar and the general national recovery, the manufacturing sector is experiencing a turnaround this year. In the first six months, manufacturing shipments increased by 18.5 per cent. In particular, shipments were up in lumber (36.2 per cent), knitted

goods (28.4 per cent), clothing (20.8 per cent), primary metal processing (25.5 per cent), and paper and related products (17.3 per cent). Employment in the first nine months increased by 13 000. Moreover, capital investment in the manufacturing sector is expected to rise by 20.7 per cent this year.

- Nevertheless, the pressures for industrial adjustment remain strong. Competition from lower-cost producers is likely to become even more severe. In the textile industry alone, employment declined by 25 per cent between 1973 and 1977 and there are no indications that the pressures confronting these traditional industries will abate in the future. Sub-provincial regions such as Montreal, the Eastern Townships and the Saint Maurice Valley, in which the traditional industries are heavily concentrated, are likely to continue to bear the brunt of this adjustment process.
- Since the Olympic Games, construction has declined dramatically. In 1977, the sector recorded a loss of 3 000 jobs as building starts declined by 16.4 per cent. Residential construction has also weakened. In 1977, housing starts fell almost 14 per cent. In 1978, the housing starts decreased again by approximately 16 per cent. Increased capital investment in manufacturing may offset these declines to a certain extent.
- Growth occurred in the tertiary sector, although it was not quite as strong as in 1977 when 55 000 new jobs were created and employment grew by 3.9 per cent. In the three quarters of 1978 tertiary sector employment increased by 2.6 per cent over the same period in 1977. Relocation of financial, commercial, and research activities from the Montreal region is reducing growth potential in this sector.

Sub-Provincial Circumstances

All regions in Quebec have felt the effects of slow economic growth and high unemployment. In 1978, unemployment is expected to exceed 10 per cent in most areas except Quebec and the Eastern Townships and may surpass 20 per cent in the Lower St. Lawrence-Gaspé region and northwestern Quebec.

In comparison with most other major urban centres in North America, Montreal has declined in relative importance. Between 1971 and 1976, the population of Montreal has increased by only 2.4 per cent, compared with 3.4 per cent for the province as a whole. Since 1976 when large projects such as the Olympic construction and Mirabel Airport were completed, the labour market in the Montreal region accounted for more than half (54.5 per cent) of Quebec's 288 000 unemployed. Unemployment in the Montreal region has averaged 10.3 per cent in 1978, even higher than the unemployment rate of 9.4 per cent recorded in 1977.

The Quebec City region, which is largely dependent on tertiary activities, experienced an employment growth of 28 000 in the first nine months of 1978. Nevertheless, this has not kept pace with labour force growth, and the areas's unemployment rate is now more than 10 per cent.

The dependence of the Trois-Rivières region on traditional industries has been somewhat alleviated with the establishment of heavy industry in the Bécancour industrial park. Despite this, the unemployment rate is expected to average over 12 per cent in 1978.

The industrial structure of the Eastern Townships is heavily concentrated in traditional activities. This region has benefitted from the revival of these sectors in 1978. In fact, in the first nine months of 1978 its unemployment rate fell to 8.4 per cent from the 10.8 per cent average of 1977. On the other hand, it must be recognized that this region is particularly vulnerable to increased international competition over the medium term as it is comprised of numerous centres whose employment is almost entirely dependent upon traditional industries.

The Outaouais region has a marked dependence on government activity, although manufacturing activities such as pulp and paper, lumber and furniture are also important. The unemployment rate in the region has risen from an average of 9.6 per cent in 1976 to 13.9 per cent for the first nine months of 1978.

Despite increased activity in the pulp and paper industry, the Saguenay-Lac Saint-Jean region recorded a decline in employment of 4 000 since the beginning of 1978. The unemployment rate is now 15.7 per cent. The two other major sub-regions not yet mentioned are experiencing the highest levels of unemployment in the province. The unemployment rate in the Lower St. Lawrence-Gaspé region is 19.2 per cent while that in the northwestern region is 22.5 per cent. The latter is largely a reflection of the slowdown in mining activity.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

In agriculture measures are envisaged to preserve existing farmland, to protect and improve the fertility of agricultural land, especially in the Montreal Plain, and to rationalize farming operations. These measures will likely enhance the productivity and growth potential of this sector.

Prospects in the mining sector are considerable although dependent on the recovery of international markets. Iron ore from Lac Albanel and Lac-Saint-Jean, the rich asbestos deposits in the northwestern region, the development of the major copper and zinc deposits associated with the SELCO project in the northwest, and the salt deposits of the Magdalen Islands are expected to make major contributions to mineral production in the medium term. Furthermore, much of this increased production will take place in regions which are

now experiencing very high unemployment. In the medium term, there may also be numerous opportunities for the further processing of these resources, as well as increased production of aluminum. In this regard, Quebec has certain distinct comparative advantages.

The pulp and paper industry remains one of the most important manufacturing industries in Quebec in terms of employment and its contribution to real domestic product and exports. At the present time, it is benefiting from the depreciation of the Canadian dollar, but in the medium term it will have to strengthen its competitive position on world markets.

Quebec has a relatively strong industrial base in the aeronautical, shipbuilding and transportation equipment industries. Large contracts have recently been obtained and Canadian defence spending (aircraft and naval ships) could generate increased activity. Prospects in the machinery industries, notably in the provision of equipment for the pulp and paper industries, are also favourable. While the petrochemical industry is experiencing difficulties in competing in international markets, possibilities exist for increased production of ethylene and related derivatives.

Transportation has always been one of the mainstays of the economic development of the Montreal region. The region's airport and port infrastructure makes it a key point in the transportation of goods between Europe and northeastern America. Mirabel Airport could become an important source of new jobs and a powerful factor in the restructuring and modernization of the regional economy, and could stimulate the development of service industries in the areas related to international trade. The construction of an international trade centre could also help to increase the infrastructure role of Montreal in commercial activities.

In summary, there are significant economic development prospects for the medium term, particularly in resource-related activities. Their realization, however, will depend on the strengthening of international markets and the undertaking of major capital investments. At the same time, the vulnerability of Quebec's traditional industries to international competition will likely increase in the medium term, and presents a major development challenge in the next few years.





- ♣ OTTAWA
- ☐ REGIONAL OFFICE
- ⊙ PROVINCIAL OFFICE
- ▲ BRANCH OFFICE



ONTARIO

OVERVIEW

The trends and prospects for the Ontario economy have not changed significantly since the February 1978 edition of this report. Economic growth, though modest, continues to be steady. As such, the decline in Ontario's share of national output, from 41.2 per cent in 1970 to 39 per cent in 1977, is more a reflection of the dramatic increase in western resource-based economic activity than of a permanent weakness in Ontario's economic performance.

It is estimated that real growth in the Ontario economy in 1978 will be approximately 3.6 per cent, a moderate improvement over the 3.3 per cent growth recorded in 1977. In contrast, trends in unemployment have not improved. Unemployment averaged 7 per cent in 1977 and, in the first 10 months of 1978, the unemployment rate has averaged 7.3 per cent.

The Ontario economy should continue to experience modest but steady growth in 1979. Overall provincial growth is expected to be close to 4 per cent. Performance may be weaker in the latter half of the year due to a possible slowdown in the U.S. economy. Sources of strength in the coming year are expected to be the positive impact on exports from the lower value of the Canadian dollar, stronger construction activity and improved business optimism in anticipation of a number of large construction projects such as the Alaska Highway pipeline and the Ford Motor Company's engine plant in Windsor. Nevertheless, the unemployment rate will likely be at or slightly above the current levels.

During 1979, the strongest sectors are expected to include transportation and communications, manufacturing and utilities. Further, the mining industry should exhibit positive growth as a consequence of improvement in commodity prices and the reactivation of production at Sudbury. The construction industry, due to increased private investment, is expecting a turnaround, particularly in non-residential

construction. With the lower value of the Canadian dollar, the travel deficit should be lessened, and accordingly, tourism should have an improved year. In contrast, longer term growth in Ontario's forest industries is open to some uncertainty and growth in the economically troubled electrical, textile and clothing industries will likely continue to be slow.

Prospects in some manufacturing sectors may be influenced by the current GATT negotiations. The results and impact of these negotiations remain uncertain, and will not, in any case, come into effect for several years. However, even in the absence of tariff changes, it is likely that many of the province's labour-intensive industries, such as clothing, electronics and textiles may be adversely affected by international competition over the medium term. This will likely lead to more specialization in advanced technology and capital-intensive industries such as primary metals, chemicals, plastics, machinery and transportation equipment.

ECONOMIC CIRCUMSTANCES

Demographic Trends

In 1977 the population of Ontario was 8.4 million. By mid-1978 it is expected to reach 8.5 million. The population of Ontario has not been growing as rapidly as in the 1960s as a consequence of lower birth rates and decreasing in-migration, particularly since 1976.

As in the rest of the country, there is a decreasing percentage of population in the 0-14 age bracket, while the percentages in the 20-39 and over 65 age groups have been rising. The trend towards a greater proportion of the population in urban centers is continuing and this has reduced the proportion of the population living in rural and northern Ontario.

Labour Markets

Over the first 10 months of 1978, the Ontario labour force averaged 4.2 million of which 3.9 million were employed. This represents annual growth rates of 3.9 per cent and 3.6 per cent respectively over the similar period in 1977. The faster growth in labour force vis-à-vis employment has been a consistent phenomenon throughout the past two years and has resulted in a gradually increasing unemployment rate.

As noted above, the provincial unemployment rate has been fluctuating between 6.9 per cent and 7.5 per cent during 1978, an increase over the previous year's range of 6.5 per cent to 7.2 per cent. Unemployment among males has been consistently lower than among females, although in both cases the absolute numbers of unemployed have been growing. By age group, unemployment is by far highest among the 15-24 age group and has remained steadily above 13 per cent in the current year.

Participation rates have remained relatively static for males throughout the year, while female rates showed an increase.

Two of the most serious areas of unemployment in the province continue to be in those economic regions centred around Sudbury and Peterborough. The Barrie region is experiencing similar problems. Unemployment rates in these areas for the first half of 1978 have been 10.2 per cent, 9.6 per cent and 10.1 per cent, respectively. Moreover, participation rates in these regions were below the provincial and national averages. The metropolitan areas of St. Catherines-Niagara, and Kitchener-Waterloo, which had unemployment rates for the first six months of 1978 of 11 per cent, and 9.6 per cent respectively, are also areas of considerable concern.

Investment Climate

Capital investment in Ontario in 1978 is expected to show little growth in real terms. During the first half of 1978, the number of residential housing starts was down 14 per cent in Ontario compared with the same period in 1977. The value of residential building permits was also down by 11.8 per cent. In non-residential building investment there has been better growth in 1978 and recent growth in commercial construction has been strong in current dollar terms. Investment in manufacturing has been relatively weak although a major bright spot has been engineering construction. Investment in utilities and other infrastructure development has grown significantly over the past year.

Expectations for 1979 are for some improvement in non-residential construction. Moreover, engineering construction should continue to experience relatively stable growth. On balance, conditions in the construction industry as a whole should improve in the coming year.

Sectoral Review

- Ontario farm cash receipts were \$2.8 billion in 1977. This represented an increase of \$85 million or 1.7 per cent over 1976, the increase being, in large part, due to higher prices. Statistics for the first six months of 1978 indicate a much improved year for Ontario farmers and increased livestock prices.
- The forestry industry has continued its period of recovery. The province's lumber industry has shown strength and the pulp industry also has experienced growth. Activity in the paper industry has also increased with greater demand from the U.S. market. The outlook continues to be encouraging for the pulp and paper industry with increases in newsprint prices currently taking place and improved demand resulting from the decline in the value of the Canadian dollar.

- In 1977 Ontario was the second largest provincial mineral producer with output valued at \$2.7 billion, up from \$2.5 billion a year earlier. Performance, however, has been mixed. Uranium and gold, currently beneficiaries of good prices and steady markets, are in an expansionary phase. On the other hand, the outlook is poorer for nickel and zinc, which suffer from large inventories, excess industry production, low prices and, in the case of the former, labour-management disputes. Iron ore and copper, while experiencing some increased production during 1977, face relatively similar situations. Prospects for iron ore production are affected by the mine closings expected in the Atikokan area. For 1979, the prospects for the zinc and copper industries appear better.
- Ontario manufacturing performance is much improved in 1978 with the value of manufacturing shipments up 11.7 per cent during the first six months over a similar period in 1977. Strong sectors include the rubber and plastics, paper, primary metal, metal fabrication and machinery industries for which prospects for 1979 also look promising. However, the transportation equipment industry is expected to have a relatively modest year and the electrical, clothing and textile industries are expected to experience fairly slow growth in the immediate future.
- Conditions in the construction industry have been poor in the last two years as a result of low capital investment. Residential construction, which was fairly strong in 1976, appears to be tapering off while non-residential construction has been relatively weak since 1976. However, expectations for 1979 are for some improvement. Construction activity in utilities and infrastructure has been reasonably buoyant and is expected to remain relatively stable.
- The transportation, communications and utilities sector continues to experience high growth. While Ontario did lag behind the national figure slightly in the case of utilities, capital investment during 1978 in this sector makes prospects brighter. Capital investment in the transportation sector has also grown. Communications investment, however, has been lower.
- Consumer spending, which was low during 1977, has been aided by the cuts in the retail sales tax and has shown considerable strength in 1978. The non-durable goods industries are currently enjoying good levels of demand. The current outlook for 1979 is for slightly lower growth in consumer sales.
- Real growth in the finance, insurance and real estate sector has been estimated at 4.9 and 3.7 per cent for 1977 and 1978 respectively. Of the three components, insurance appears to be the strongest with finance and real estate having slow years as a

result of the relatively low level of capital investment nationally. Higher interest rates may reduce the growth potential of this sector during the coming year.

- The community, business and personal service sector should achieve approximately 3.8 per cent growth during 1978. Additional potential growth in this sector has been restrained by government cutbacks in health, education and community services.
- The two orders of government, along with most local governments, have embarked on programs of restraint in public sector growth and employment. Consequently, public sector employment and expenditure growth has been, and will continue to be, slower than that experienced in the early seventies. It is estimated that this sector's growth will be 0.3 and 1.6 per cent in 1978 and 1979 respectively.

Sub-Provincial Circumstances

Recent economic prospects in northern Ontario have been somewhat mixed and will likely continue to be so in the medium term. Although there has been some shifting between various economic sectors, substantial unemployment and a marked dependence on a few industries still characterize the region.

Lumbering, after performing well over the past two years, is expected to experience some easing of demand due to the dampening effect of rising interest rates on U.S. housing starts. On the other hand, steel production, along with the manufacture of pulp and newsprint, is showing improved performance. Conditions in the non-ferrous metal-mining industry continue to be depressed as a result of the low market prices for nickel, copper and zinc. Prospects for the latter two minerals, however, are beginning to look more favourable but the brightest spots in the minerals sector have been uranium and gold.

The principal areas of growth in the north are Thunder Bay and Elliot Lake. Prospects also look quite favourable for Sault Ste Marie, Cochrane and Timmins in the near future due to expanded local industrial activity. Current problem areas are Sudbury, Atikokan and Kirkland Lake.

In eastern Ontario, the regional economy is in transition. Traditional industries, such as electrical products, clothing and textiles, are losing ground increasingly to foreign competition. The agriculture sector is undergoing an extensive rationalization process and production has remained constant. The outlook for the region as a whole is one of relatively slow growth. Nevertheless, the drop in the value of the Canadian dollar and recent measures to assist the textile and clothing industries have improved the medium-term prospects.

Southern Ontario has generally experienced an improved outlook. Certain areas are, however, doing better than others. Present difficulties in the auto-parts industry for example, have had dampening effects on St. Catharines-Niagara and Kitchener-Waterloo. Nevertheless, there have been few consistently weak areas in this part of the province and prospects look significantly brighter for Windsor, Nanticoke and, to a lesser degree, the Toronto area.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

Ontario has many potential development opportunities, but constraints do exist. A major constraint for the medium term is the limited international market situation for raw materials. The impact of this on the major nickel producers in Sudbury is well known. It was also an important factor in postponing the iron ore mining developments at Bending Lake and Lake St. Joseph. Moreover, competition from low-cost-ore producing countries such as Brazil is being increasingly felt. Similarly, competition from the manufacturing industries of countries with lower costs in such sectors as footwear, clothing and electronics serves to constrain the growth of these manufacturing industries.

In northern Ontario, the traditional limitations on development such as remoteness from markets, long distances between scattered population centres, harsh climate, a poor agricultural land base, and the social and economic instability associated with the numerous single-industry communities contrast dramatically with the situation in southern Ontario. A lack of indigenous energy supplies in Ontario, particularly coal, oil and natural gas, may reduce Ontario's traditional cost advantages and higher energy costs may well affect northern Ontario more seriously than the southern regions.

Resource development continues to be a source of major development opportunities. Uranium mining activity in the Elliot Lake and Bancroft areas is likely to remain strong in the medium term and will continue to provide important development opportunities in these areas. Early in 1978, Ontario signed a \$6.5-billion contract with Dennison and Preston Mines for 200 million pounds of uranium over a 30-year period. This will ensure continued development in the Elliot Lake area. Eldorado Nuclear Ltd. is also studying the possibility of locating a proposed \$100-million uranium refinery either at Sudbury or in the Port Hope area. The development of the Onakawana lignite deposits north of Cochrane is likely to have a major positive impact on the area's economy and could spur further exploration in the region. The record high price of gold is expected to result in the reopening of some gold mines. Activity will likely centre around the Timmins and Red Lake areas of northern Ontario.

The Ontario petrochemical industry, centred in Sarnia, is continuing to develop on a world-scale basis and should provide Ontario

with an important industrial asset in the medium and long term. The major Petrosar primary petrochemical plant, however, may soon experience difficulties in finding markets for all of its production, as western Canada and the United States step up development of their own facilities.

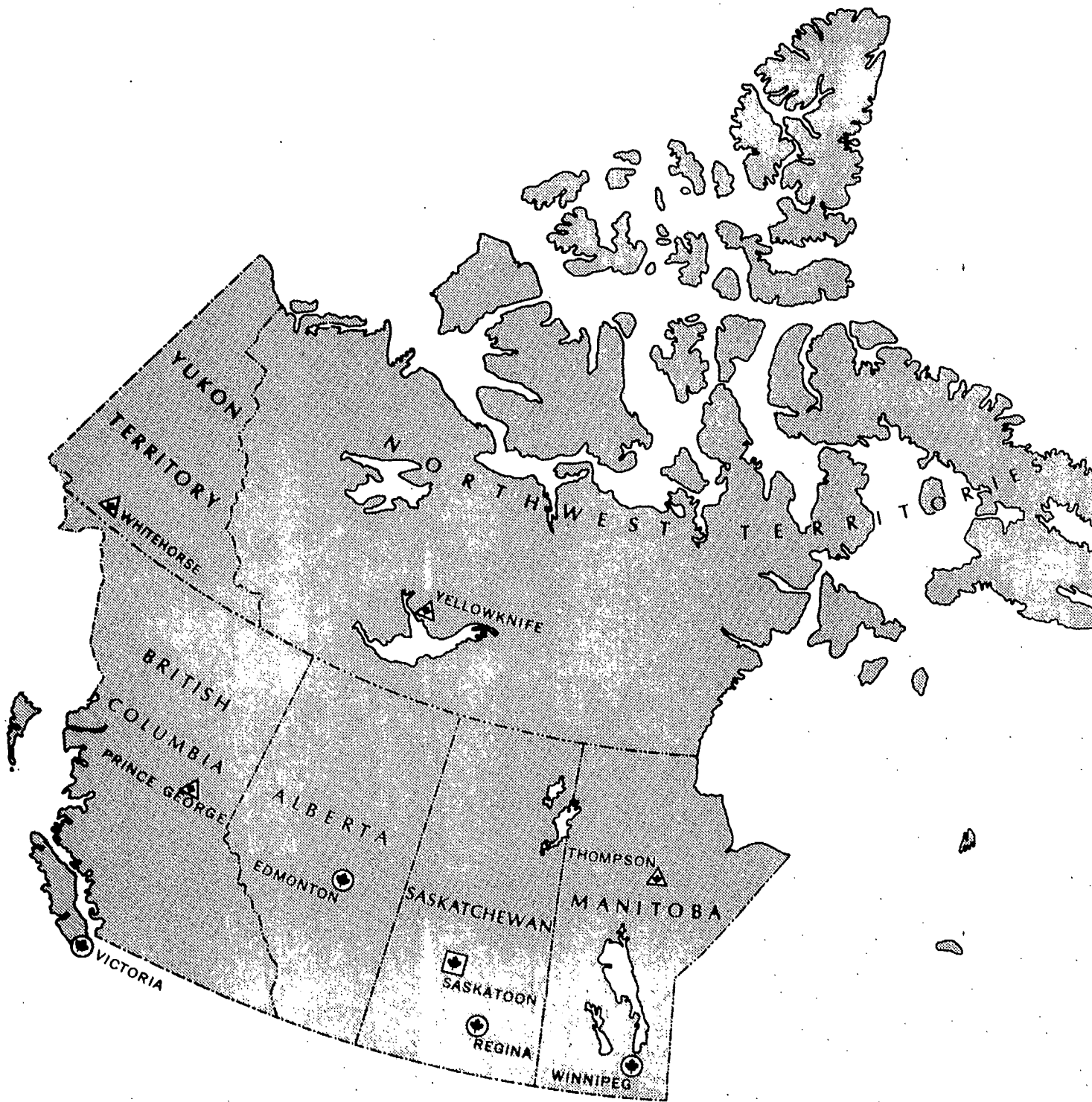
Expansion of nuclear and thermal generating plants, such as the Darlington, Nanticoke and Marmion Lake (Atikokan) facilities, will provide major opportunities for the construction, nuclear and electrical engineering industries. Furthermore, construction of the Atikokan coal generating station will assist in relieving unemployment in an area of declining mining activity. The Nanticoke development on the north shore of Lake Erie is associated with a new Texaco oil refinery, a Stelco hot strip mill, a major industrial park and the construction of a new town. Together these will serve as a major catalyst for future development in this area of southern Ontario. Finally, the recently announced twin Candu nuclear reactor sale to Romania is reason for optimism about Ontario's nuclear industry and may create needed markets for the province's heavy-water production.

The construction of the Alaska Highway pipeline is expected to benefit Ontario steel producers. In the longer term, the construction of the possible Polar Gas pipeline would have major implications for the economy of northern Ontario.

Ford Motor Company's new \$533-million engine plant in Windsor will employ 2 600 people when it commences production in the early 1980s. It will also provide more opportunities to Canadian suppliers of production and non-production parts, materials and services which, in turn, will generate additional employment. Furthermore, a major three-year expansion program is planned for the General Motors automatic-transmission plant in Windsor which will create an estimated 1 500 new jobs and a doubling of output. The increased production associated with these plants is expected to lower Canada's automotive trade deficit. Development prospects are also promising for the aerospace industry.

In general, therefore, the medium-term prospects for the Ontario economy center on selective resource development and a strengthening of the higher growth segments of the manufacturing sector. Southern Ontario will continue to be the focal point for economic activity in the province although a few areas in the north show promise for stable growth.





- ☒ REGIONAL OFFICE
- ⊙ PROVINCIAL OFFICE
- ▲ BRANCH OFFICE



WESTERN REGION

OVERVIEW

The 1978 gross domestic product in western Canada is expected to reach \$67 billion, up 3.5 per cent in constant dollar terms from 1977. Despite its rapid growth, the economy of western Canada has seen few changes in its industrial structure over the last two decades. Primary production and primary processing continue to dominate economic activity, accounting for 53 per cent of total value-added in goods-producing industries compared to 28 per cent for Canada as a whole.

The four western provinces benefited greatly from the resource boom of the early seventies and the current strength of the regional economy is closely linked to the energy sector. Prospects for increased activity in the mining and construction sectors, along with energy, combine to produce a basic optimism for the medium term in the three western-most provinces. In addition, the lower value of the Canadian dollar should have positive effects for the region's export industries. Only in Manitoba is the optimism more guarded for the medium term.

In comparison to the "Economic Circumstances and Medium-Term Prospects by Province" published in February 1978, the short-term circumstances for western Canada have improved and the medium-term prospects appear significantly better. On balance, a change in mood away from pessimism in Manitoba plus improvements in Saskatchewan and, to a lesser extent, in British Columbia would appear to more than compensate for the expected leveling off of Alberta's economy over the short term. The medium term should see a resumption of a strong economic performance in Alberta, as well as the beginning of an uranium-led resource boom in northern Saskatchewan. British Columbia should experience moderate growth. For Manitoba, it is too early to see the potential medium-term implications of the current trends.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Between 1961 and 1978 the combined population of Alberta and British Columbia grew from 3 million to almost 4.5 million to account for 19 per cent of Canada's total population. Manitoba's population grew from 922 000 to over a million in 1978, but as a proportion of Canada it has declined. The population of Saskatchewan fell from a high of 960 000 in 1968 to just under 900 000 by 1974, but has recovered to 948 000 in 1978, a level similar to that of the early sixties. As a result of these differing trends, the west's share of the national population has increased by only one percentage point in two decades, from 26 per cent in 1957 to just over 27 per cent in 1978.

In the medium term these trends are likely to continue. Alberta will need substantial in-migration to accommodate major projects, but it is unlikely that Saskatchewan and Manitoba will provide the number of migrants that they have in the past. The agricultural labour force seems to be stabilizing and the rapid labour force growth resulting from the post-war baby boom is moderating. Consequently, in-migration to Alberta from other regions of the country may become relatively more important than it has been in the past.

Winnipeg's long history of urban supremacy on the prairies is being overtaken by growth in the Edmonton-Calgary corridor. Winnipeg, with a 1977 population of 581 800 had an increase of only 5.8 per cent from 1971. In contrast, Edmonton with 573 700 and Calgary with 495 100 now have a combined population of over a million, an increase of 18.8 per cent from the 1971 census. In 1977 the populations of Regina and Saskatoon were 154 600 and 136 800 respectively, an increase of 9.9 per cent and 8.7 per cent, since 1971. Vancouver's 1977 population of 1 172 200 was 8.3 per cent above that of 1971, while that of Victoria increased by 11.5 per cent to 218 300.

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

Growth in the population of Status Indians and Métis continued to be well above the national average. Approximately 200 000 Status Indians are now estimated to reside in western Canada. An increasing proportion, particularly in the 15-30 age group, are choosing to live in the metropolitan areas.

Labour Markets

The labour force in the four western provinces reached 3.1 million in 1978, up 12 per cent since 1975, compared to a national growth of 9.5 per cent over the same period. Alberta and British Columbia accounted for two-thirds of the total and 76 per cent of the increase over this period, with Alberta playing a dominant role.

Only in British Columbia does the seasonally adjusted unemployment rate, at 8.2 per cent, equal the national rate of 8.2 per cent in October, 1978. Saskatchewan's unemployment rate of 4.6 per cent in October is the lowest in Canada. Alberta's rate also remains relatively low at 4.7 per cent, while Manitoba's level rose to 6.5 per cent in October. Since 1975 almost 43 per cent of the national employment growth has occurred in the west and this trend is expected to continue in the medium term.

Average weekly wages and salaries in British Columbia and Alberta, at \$300 and \$273 respectively, were above the national average of \$264, while Manitoba and Saskatchewan, at \$236 and \$249 respectively, were below the national figure.

Investment Climate

Total capital investment intentions in western Canada for 1978 are just over \$24 billion, up from an actual 1976 capital investment of \$20.7 billion. This represents an increase in the region's share of total national capital investment from 37 per cent to 38 per cent. This relatively large share is a result of the west's predominance in the primary and construction sectors. Their share accounts for over half of the national total in those sectors. By contrast, the region's share of national manufacturing investment has fluctuated around 19 per cent throughout the seventies.

The prospects of new major developments in the energy and related construction sectors are likely to result in a continuation of this pattern. The Alaska Highway pipeline, further tar sands development in Alberta, heavy oil development in Alberta and Saskatchewan, and uranium development in Saskatchewan are examples of anticipated investments. With increased demands for materials required for these types of activities, investment in manufacturing is also likely to increase over the medium term. However, the investment outlook in Manitoba is not as optimistic as in other western provinces after the recent decline in hydro capital spending. Greater activity is expected in the service sectors, and the already noticeable growth of financial intermediaries and other service industries should increase, with Calgary, Edmonton and Vancouver registering continued expansion.

Sectoral Review

- In aggregate terms, the industrial structure of western Canada has changed little since 1961. Primary production and processing

account for 53 per cent of total value-added in goods-producing industries, in marked contrast to the national figure of 28 per cent. In 1977, the west, with 27 per cent of national population, had 38 per cent of national capital investment. However, the region's manufacturing industry accounted for only 17 per cent of national manufacturing employment and value-added. Employment in prairie agriculture has dropped from 250 000 in 1961 to 217 000 in 1977, but agriculture is still the largest single employer on the prairies. British Columbia remains dependent on the exploitation of its forestry and mineral resources.

- Grain from the prairies and lumber and pulp and paper from British Columbia are largely sold on world markets and British Columbia in particular benefited from the recent decline of the Canadian dollar. In general, the west shared more than proportionately in the commodity boom of the early seventies and relatively high grain prices helped to continue the boom on the prairies through 1975, some time after it had slowed in the rest of Canada. However, net farm incomes dropped by 10 per cent between 1975 and 1976, a further 22 per cent from 1976 to 1977, and are expected to fall slightly in 1978.
- The British Columbia forest industry has perhaps fared better than the rest of the Canadian forest products industry because of its linkages to the American construction industry's lumber requirements. However, the relatively high level of residential construction of the recent past in the United States is expected to decline in the medium term. The pulp and paper component of the industry has experienced depressed world markets for much of the last few years but registered significant gains in the first half of 1978.
- Until the fall of 1977 the Western mining industry appeared relatively strong. With the INCO layoffs at Thompson, and the generally depressed state of world markets, uncertainty continues in the metal-mining industry although some optimism is suggested by the depletion of world mineral inventories. On the other hand, the oil and gas and related support industries continue to be strong in the west. With the possibility of future uranium development in the north, the outlook for the Saskatchewan mining industry is optimistic.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

The medium-term future of the western regional economy exhibits considerable contrast among the various sectors. The prospects for energy appear bright with the decision to build the Alaska Highway pipeline and the possibilities of further pipeline construction to tap frontier reserves in the longer term. Furthermore, the announced

projects to bring into production the heavy oil deposits in Alberta and Saskatchewan and the probability of more tar sands plants provides for additional medium-term opportunities. These developments generate a stimulus both to related construction industries and such manufacturing industries as the IPSCO pipe mill at Regina and industrial housing from ATCO. The uranium resources of Saskatchewan are also promising developments in the medium term.

Outside the energy fields there are certain constraints relating to the long-term development of western Canada. The major forestry resources of British Columbia are already being tapped, though there appears to be an untapped sawmilling potential in the northern interior. Most of the remaining forest resources are relatively remote, slow growing, or of commercially less desirable species. Although the mineral resources of northern British Columbia and the Yukon are rich, concern exists about longer run competition from third world countries.

The manufacturing industry of western Canada has been largely related to processing of resources, and further expansion of the resource processing sector will be dependent on new resource developments. On the other hand, industries supplying specialized equipment needed by the mining, pipeline, forestry and other resource industries have substantial prospects.

In the early seventies, concern was expressed about the ability of the transportation system, particularly through the Rockies and British Columbia ports, to handle the growing resource output of the west. Later analysis and further investment in both rail and port facilities has suggested that these concerns were overstated, but the ability of the transportation system to handle resource output remains a continuing concern.

Another major issue is recurrent water shortages on the prairies, which could emerge as a significant constraint to industrial development as well as to urban growth.

The overall sense of guarded optimism associated with most areas of the west is also applicable to the two territories, although the degree to which the Native people of the north will benefit from future progress is a concern. In the Yukon Territory, mineral exploration, development and production have resulted in a relatively healthy economic climate since the late sixties. Most of these activities have benefited immensely from the infrastructure that was established in the territory during and after World War II. Economic circumstances are expected to remain buoyant in the medium term, with development activities planned in the transportation sector and the mining industry, and, particularly, in the construction of the pipeline across the southern Yukon. The increased employment opportunities generated by these activities should lead to substantial growth in the service sector, including significant growth in the tourism industry.

In the Northwest Territories, income and employment opportunities are dependent on two major activities: resource development and government. Approximately one-half of all wages and salaries in the territories originate in the government sector. Minerals, oil and gas account for the bulk of exports. However, smaller businesses, often related to traditional ways of life, provide a variety of occupations to Northerners. They also serve to diversify and stabilize the economy and to spread the benefits of major development and government activity. Major development projects are expected to continue over the medium term and these projects will provide real benefits to the north. Recent oil and gas exploration in the Beaufort Sea, and mineral production at Nanisivik and the Great Bear Region have demonstrated that northern workers and local business services can be provided in support of resource developments, thereby supporting regional growth centres and small, distant communities through labour rotation schemes.

In summary, the medium-term prospects for the four western provinces and the territories are viewed with optimism, with the good outlook in the energy sector generally outweighing the less buoyant prospects of some other areas of activity.

MANITOBA

OVERVIEW

The recent performance and short-term outlook for the Manitoba economy suggest a period of relatively slow growth. During the last two years the growth of real output has been significantly below the Canadian average and indications are that in 1979 this situation will persist, although with some modest improvement. These trends have been due to below-average performance in output and employment during the past two years in the agricultural, mining, forestry, manufacturing and construction sectors.

Nevertheless, preliminary data for 1978 suggest a mood of cautious optimism. Two of Manitoba's key economic sectors, agriculture and manufacturing, may be displaying the early signs of recovery. In the agriculture sector, gross farm income increased 30 per cent to \$611 million during the first seven months of 1978 and, in manufacturing, employment increased by 5 000 during the first nine months of 1978, the first increase in employment since 1975. In addition, manufacturing shipments and investment have increased significantly. Despite these improvements, unemployment increased by 8 000 between September 1977 and September 1978 as the labour force expanded at approximately double the rate increase of employment in the province.

Manitoba has a strong entrepreneurial record and a well-diversified economy, with industrial activity evenly distributed among the main sectors of manufacturing, resource processing, agriculture and financial and distribution services. A significant improvement in the prospects of any one of these key sectors will reflect positively on the overall performance of the provincial economy.

In comparison to the "Economic Circumstances and Medium-Term Prospects by Province" published in February 1978, the current circumstances of Manitoba's economy have improved to one of cautious optimism. The main reason for this change is the improved outlook for Manitoba's manufacturing and agricultural sectors. However, it is difficult to determine if this selected recovery can be sustained over the medium term.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Preliminary estimates for 1978 give Manitoba a population of 1 033 000. During the seventies, Manitoba's population increased at an average annual growth rate of 0.7 per cent in comparison to an average annual growth rate of 1.3 per cent nationally, resulting in a decline in Manitoba's proportion of Canada's population from 4.6 per cent in 1970 to 4.4 per cent in 1977. This trend has continued into 1978. A notable exception to this pattern of slow population growth is the province's Status Indian population which continues to grow at a rate more than twice the provincial average. Although Manitoba's population growth rate has not kept pace with Canada, the difference narrowed considerably during the 1972-77 period in comparison to the earlier 1966-71 period. Much of the population increase has occurred in Winnipeg and the larger urban centres.

Labour Markets

Due to the modest rate of expansion in the provincial economy, Manitoba's labour force and employment expanded during 1977 and the first nine months of 1978 at rates that were below those achieved at the national level. For the period January to September 1978, the seasonally adjusted provincial labour force averaged 474 000, an increase of 16 000 over the same period in 1977. With employment increasing by only 11 000 to 443 000, the number of unemployed in Manitoba increased by 5 000 to 32 000 or from 5.9 per cent to 6.7 per cent of the labour force. This compares with a national unemployment rate of 8.1 per cent and 8.5 per cent in the comparable period in 1977 and 1978 respectively.

Labour market statistics suggest that, for the first time since 1975, employment in Manitoba's manufacturing sector is beginning to increase, amounting to 60 000 during the first nine months of 1978 in comparison to 54 000 during the same period of 1977.

Employment in agriculture and other primary industries has changed little while, despite a prolonged strike this past summer, construction employment is reported to have increased significantly. Overall employment growth in the service industries was marginal with

moderate gains in the trade and personal services sectors dampened by zero growth in the finance, insurance and real estate sectors and declines in the public administration and transportation/utilities sectors.

Investment Climate

Revised investment intentions for 1978 indicate that total new capital expenditures will increase by \$8.8 million in Manitoba this year, an increase of less than 1 per cent. The goods-producing industries will experience the largest increase with manufacturing up 12.5 per cent to \$83 million, and primary industries up 11.3 per cent to \$407 million. Increases in the service sector will range from marginal for housing to moderate for institutions and government departments. Utilities is the only sector expected to experience a decline in new capital investment in 1978 with a dramatic fall of 16.7 per cent from \$581 million in 1977 to \$484 million this year.

Since 1966 there has been a substantial shift in new capital spending from private sector manufacturing to public sector utilities. This dramatic increase in utilities investment ameliorated to some extent the impact of the relative decline in private sector manufacturing investment. However, with the recent decline in northern hydro-electric development, the impact of the relatively low level of investment in the manufacturing sector has become more apparent.

Although the percentage increase in new capital investment in Manitoba's manufacturing sector is expected to be significant this year, the current level of spending will still only equal levels achieved in the late sixties. When inflation is taken into account, new capital investment in Manitoba's manufacturing sector is actually considerably below levels achieved a decade ago.

Sectoral Review

- In the agricultural sector, substantial increases in gross farm income are forecast for 1978. For the period January-July 1978, total farm cash receipts amounted to \$611 million, an increase of 29.6 per cent over the same period in 1977. All major sectors of the Manitoba farm economy have been showing strength in 1978 with cash receipts from livestock production totalling \$249 million by the end of July, an increase of 22 per cent over the previous year, and crop receipts up 39 per cent to \$352 million. Expectations are for a good crop this year in terms of both volume and quality. The market for hogs has strengthened considerably with both price and volume up, while cattle prices are substantially higher although the volume has not increased. This year has been a record for grain exports with high-quality grain bringing a good price. The improved position of the agriculture sector is reflected in farm implement and equipment sales which rose by a dramatic 38.2 per cent during the first eight months of 1978, the largest increase in Canada.

- In 1977, the combined production of nickel, zinc and copper, which together account for more than 95 per cent of the value of the province's mineral output, increased only marginally in value, and of the three, only copper increased in volume output. This decline in real output of metal mines is the result of a world-wide surplus of base metals. Mineral output is expected to decline further in 1978. Nickel output is estimated to have declined almost one-third in volume during the first eight months of 1978 with the volume of production of copper and zinc the same as last year. However, the value of copper and zinc output is expected to increase this year because of the depreciated Canadian dollar. The present outlook for nickel is still very uncertain with INCO operating only two of its three mines in Thompson. Total employment at INCO's Thompson facility is reported to have declined by 1 000 between January 1977 and January 1978. The world nickel market is now not expected to experience any significant recovery until 1981. Copper prices have shown a slight improvement as the world copper stockpile has declined. The market may continue to improve next year.

- Preliminary data on output, employment and investment suggest that Manitoba's manufacturing sector may be in the early stages of an economic recovery. Following a poor performance in 1977, the value of shipments by Manitoba manufacturers appears to have strengthened in 1978. In the first six months of the year, the value of Manitoba manufacturing shipments registered an increase of 13.5 per cent over the same period in 1977. At the same time, shipments increased by 14.6 per cent in Canada and 17.9 per cent in western Canada. The primary metal, chemical and electrical products industries have shown some dynamism in 1978 with shipment increases in excess of 20 per cent, while the clothing, printing and wood industries had shipment increases in the 10 to 20 per cent range. Output in the non-metallic mineral products and leather industries declined by more than 10 per cent during the first four months of 1978, while the textile and metal-fabricating industries experienced declines of less than 10 per cent.

- Despite a prolonged construction strike this summer, a reduction in provincial government capital expenditure projects, and a further delay in northern hydro-electric power developments, the construction industry in Manitoba recorded an employment increase of 14 per cent during the first nine months of 1978 over the same period in 1977. Contributing to this strength is the dramatic increase in dwelling unit starts in Manitoba during the first six months of 1978, up 74.6 per cent from 4 235 to 7 396 units. This compares to a marginal decline in dwelling unit starts at the national level.

- Employment growth in the service-producing industries, which increased by only 5 000 or less than 2 per cent in 1977, is continuing a pattern of slow growth in 1978. However, this sector

continues to dominate employment, accounting for 70 per cent of the provincial total. Retail trade in Manitoba during the first six months of 1978 has not kept pace with growth at the national level, increasing by 9.6 per cent provincially and 11.3 per cent nationally.

- Because of the substantial electrical generating capacity in Manitoba, initiatives in the energy sector are focused on the investigation of export markets for Manitoba's surplus electricity. The provincial government in conjunction with the other western provinces is currently exploring the possibility of an expanded east-west transmission system which would enable Manitoba to export to the other western provinces. Negotiations are also under way with Nebraska Public Power District, a reflection of the general interest in exploring expanded interconnections with electrical utilities in the United States.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

Although the diversity of the Manitoba economy will continue to allow a range of development opportunities contributing to a modest rate of growth, and although business confidence appears to be improving, the overall economic development prospects of Manitoba remain much more modest than those of most areas of Canada. While some sectors of the provincial economy have recently exhibited strength, there are relatively few major development prospects. To improve upon areas of potential in the economy, selected federal/provincial economic initiatives are being undertaken. These initiatives are designed to encourage new investment, employment and industrial growth. Since February, substantial progress has been made in mounting federal/provincial development initiatives in manufacturing, agriculture and tourism.

With regard to manufacturing, the recently signed Canada/Manitoba Subsidiary Agreement on Industrial Development has been designed to accelerate the industrial development process by improving the performance of the industrial sectors in Manitoba that are important because of their size, linkages and long-term growth potential. These include primary metals, food and beverage, health care products, light machinery, transportation equipment, and aerospace/electronic products.

In the agriculture sector, the key development prospect over the medium-term is expanded production of high-value specialty crops that can be processed in Manitoba such as potatoes, soybeans and grain corn. Expanded production of these crops would be enhanced through improvements in drainage and irrigation in specialty-crop growing zones and through demonstration of crop management and adaptability. Because of the high value-added potential of livestock production, increased attention is also being devoted to improving the efficiency of forage to red meat conversion. Federal/provincial discussions of these measures

through a value-added crops product subsidiary agreement are well advanced. This initiative is complementary to the industrial development strategy detailed in the Canada/Manitoba Subsidiary Agreement on Industrial Development.

Water development continues to be a major priority in improving the economic performance of 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 in drought periods.

Development assistance to the tourism industry is a priority under the Canada/Manitoba General Development Agreement. Consistent with the recommendations of the recent IT&C Consultative Task Force report on the Canadian tourism industry, the tourism initiative in Manitoba emphasizes the development of a number of major destination areas and measures to improve the productivity and organization of the industry. These measures are designed to stimulate private sector investment and employment, and to improve the balance-of-payments travel account while increasing the overall contribution of this industry to the Manitoba economy.

In addition to these initiatives a number of developments are taking place in northern Manitoba. Discussions in the context of the northlands agreement have considered economic development projects which would integrate measures to improve the efficiency and productivity of commercial forestry operations with activities which improve employment options for northern residents. In the mining sector, Sherritt Gordon is undertaking a \$27 million underground development at Ruttan Lake and Hudson Bay Mining and Smelting is building a \$26 million concentrator and mill at Snow Lake. As well, recent exploration activity has produced some encouraging preliminary signs.

In summary, despite the fact that some economic development prospects do exist in Manitoba, they appear to be more modest than those in other parts of western Canada.

SASKATCHEWAN

OVERVIEW

The Saskatchewan economy continues to be dominated by the production of primary products. Periods of rapid economic growth have resulted mainly from either higher grain prices or a new resource find. A decline in commodity prices or a crop failure has a drastic downward effect on the provincial economy. As a result, the economy of Saskatchewan has been characterized, to a greater extent than any other province, by relatively large swings in economic activity.

Throughout the 1950s and 1960s the traditional agriculture employment base continued to decline due to farm consolidation and increasing capitalization. Until recently, few industrial developments had occurred to offset these changes and the effect had been a net out-flow of population from the province, an upward shift in the age distribution of the province's labour force, a significant rural-urban shift in population and the demise of many small communities.

This situation is beginning to change and, in the medium term, although the economy of Saskatchewan will continue to be resource oriented and subject to wide cyclical swings, a potential for strong economic growth exists. Opportunities exist in energy-related mining activities, potash, iron and steel related activities, farm machinery, and increased value-added by processing agricultural products. These opportunities, if realized, will assist in diversifying Saskatchewan's economic base and encourage increased Native participation through the development of the northern part of the province. The major challenge is the need to diversify employment opportunities in order to absorb new entrants to the labour force.

In comparison to the "Economic Circumstances and Medium-Term Prospects by Province" published in February 1978, the short-term circumstances of Saskatchewan's economy show a steady improvement while the medium-term prospects are for strong growth. Farm cash receipts are up and manufacturing output shows signs of improvement.

Manufacturing investments are down this year but are expected to improve in 1979. Because of the potential heavy oil developments and investments in new uranium mines, the medium-term outlook is distinctly optimistic.

ECONOMIC CIRCUMSTANCES

Demographic Trends

Over the past 40 years, the population of Saskatchewan has fluctuated considerably. Although the July 1978 population of 948 000 represents a significant increase from the April 1974 low of 900 000, it is only slightly higher than the 1936 figure. From 1968 to 1974 the population dropped by 59 100.

The province is becoming more urbanized with 31 per cent of the population concentrated in the two metropolitan centres, Regina (155 000 population) and Saskatoon (137 000 population). A series of regional service centres are distributed an average of 125 miles apart, each with a population ranging from 5 000 to 35 000. Towns of 2 000 to 5 000 are scattered throughout each region and villages of fewer than 2 000 persons are located every eight to ten miles.

Labour Markets

The unemployment rate in Saskatchewan is well below the national rate. The seasonally adjusted September 1978 figure was 4.9 per cent, in contrast to the national average of 8.5 per cent. However, since 1975, provincial employment has increased by 11.1 per cent and the labour force has grown even faster, at 12.8 per cent.

Investment Climate

In 1978, manufacturing investment is expected to decline by 37.6 per cent whereas investment in primary industries (potash, uranium and coal) is expected to increase by 24.0 per cent. Total investment in 1978 is estimated to be over \$2.4 billion, an 8.1 per cent increase over 1977.

Possible spin-off industries from developments in the primary sector could result in more investment over the next few years in resource processing facilities, such as a heavy oil plant and an uranium refinery. Manufacturing opportunities may also arise as a result of developments in the mining sector.

In the construction sector, rising interest rates and some over-building in housing are expected to dampen new investment initiatives in the residential and commercial sectors. However, potential northern development could mitigate this trend in northern and central Saskatchewan.

Sectoral Review

- Agriculture normally accounts for half the value-added in Saskatchewan's goods-producing sector. Farm cash receipts, at \$1.6 billion for January to August 1978, are up 14.3 per cent over the same period in 1977. This is due largely to stable grain markets, an upswing in cattle prices, and the decline of the Canadian dollar. Rising world grain inventories are causing some concern. Production in 1978 is expected to increase beyond 1977 levels.
- The strengthened grain export demand has placed pressure on existing grain transportation systems to maintain a high level of throughput.
- The mining industry is the second largest contributor to value-added in the province, accounting for \$752 million or 20.2 per cent of the total goods-producing sector in 1975. However, it accounts for only 2 to 3 per cent of provincial employment. Total production from the mining sector is expected to increase between 2 and 3 per cent in 1978 and 1979.
- Manufacturing accounts for 12.2 per cent of value-added in the provincial goods-producing sector in 1975 and approximately 6 per cent of employment. Areas where some real increase has likely occurred in 1978 are food and beverages, wood industries, metal fabrication and machinery.
- The service sector in Saskatchewan accounts for approximately 59 per cent of provincial employment and 57 per cent of estimated provincial real domestic product in 1978. The traditionally decentralized distribution system is adjusting to increasing urbanization and the more centralized shopping patterns of rural residents.

Sub-Provincial Circumstances

The decline of many small communities and the trend toward urbanization focuses on the continued problems of rural areas to provide employment and income opportunities. Increased stability of rural communities is essential to support agricultural development.

In northern Saskatchewan, the basic industries are forestry and mining. The anticipated increases in mining and the resultant increase in other economic activity requires government programs to ensure that many of the socio-economic benefits accrue to local people. Examples include the arrangement between the Government of Saskatchewan and AMOK Limitée to utilize local residents for 50 per cent of the employment needs, as well as the Canada-Saskatchewan northlands development agreement.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

World demand for food will increase over the medium term, thereby ensuring market opportunities for Saskatchewan grain. Grain production will continue to dominate the provincial economy. However, due to the highly capital-intensive nature of grain farming, if increased job opportunities are to occur, the grain economy must be complemented by other activities, particularly resource processing and manufacturing.

Future opportunities in manufacturing are possible in high technology and high value products where local resources are used in the production process, such as health and energy products from an industrial fermentation process.

Saskatchewan is estimated to have 30 per cent of Canada's total uranium reserves, which in turn are 10 to 15 per cent of the non-communist world total. The Cluff Lake Board of Inquiry issued a report this year recommending that the provincial government allow uranium mining to proceed, subject to various safeguards and socio-economic requirements. If the existing mining projects are completed by the mid-1980s, Saskatchewan's production capacity and provincial royalties would increase substantially. The development could encourage the establishment of an uranium refinery near Saskatoon in the medium term.

The anticipated construction of the Alaska Highway pipeline could benefit IPSCO's future market for pipe and other steel products.

Significant opportunities could occur in the mining and processing of heavy oil in west-central Saskatchewan. A heavy oil upgrading plant (costing from \$700 million to \$1 billion) would result in substantial socio-economic benefits to the province in both direct employment at the plant and considerable indirect employment in the oilfields as well as in industries providing equipment and services to this sector.

Strong opportunities for developing Saskatchewan coal in the Estevan area should be evident in the medium term, due to increased demands for electricity (such as from the expanded steel plant in Regina), long-term contracts with Ontario Hydro and a general requirement to meet the growth in domestic energy demand.

The medium-term demand for potash (from both developing countries and the United States) is expected to be firm. The Saskatchewan Potash Corporation is expanding its production capacity at Rocanville and Lanigan.



ALBERTA

OVERVIEW

Alberta's economic performance over the past five years has been impressive and this is expected to continue into the 1980s. A major contributor to Alberta's recent economic growth has been the construction activity associated with large energy-related projects. It is worth noting that the completion of the construction phase of Syncrude and other such developments have contributed to a somewhat lower rate of growth of employment and real domestic product and a modest rise in the unemployment rate.

Although delays in major energy developments could further dampen the growth in the short term, the commencement of these projects during the 1979-82 period should result in continued buoyancy in the medium term. The timing of these projects depends on world markets, competition from other energy sources and the prices for oil and gas.

Major opportunities to diversify the provincial economy lie in increased processing of agricultural and forest products, tourism development and petrochemical processing. The prospects for agricultural processing and agricultural performance in general will, in part, depend on access to markets and improvements in the transportation system. Growth in the petrochemical industry will depend on world market considerations as well as the future world price for oil.

In comparison to the "Economic Circumstances and Medium-Term Prospects by Province" published in February 1978, the short-term circumstances of Alberta's economy are somewhat less optimistic (although still very favourable), while the medium-term prospects continue to look bright. Construction of the massive energy projects

which sustained Alberta's rapid growth over the past five years has fallen off. This lull should dampen short-term performance, but resumption of construction activity on major projects in the medium term should again stimulate rapid economic growth. The recent passage of the Energy Bill in the U.S. suggests a late 1979 or early 1980 construction start for the Alaska Highway natural gas pipeline.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The population of Alberta increased from 1.6 million to 1.9 million between 1971 and 1978, as the province overtook British Columbia as the most rapidly growing province in terms of population. This rapid rate of growth is expected to slow slightly during the 1978-79 period and then rise again as the in-migration rate responds to employment opportunities generated by major projects which are expected to begin in the 1979-82 period. By 1982 the province could have a population in excess of 2.2 million, the majority of which would be concentrated in the Edmonton-Calgary corridor.

Labour Markets

Alberta entered the 1970s with an unemployment rate of 5.1 per cent and an annual employment growth rate of 1.6 per cent. By 1974, major energy developments had stimulated the economy to such an extent that the unemployment rate had dropped to 3.4 per cent. In the past two years, the annual employment growth rate experienced in the mid-1970s has not been sustained and the unemployment rate has risen to 4.7 per cent. It is expected to continue to move gradually upwards in 1978 and may reach 5.8 per cent in 1979, until the effects of new energy developments are felt. These projects will likely push the employment growth rate to levels prevailing early in the seventies, while creating skilled labour shortages and upward pressures on selected wages and salaries.

Investment Climate

Alberta has enjoyed a favourable investment climate throughout the 1970s. Early in the decade, the growth rate in new capital expenditures rose dramatically, reaching a high of 30 per cent in 1976. In 1977, new capital expenditures rose by 12.4 per cent. Although investments in major energy-related projects have been lower in 1978, expansions in new housing construction and commercial developments may maintain the growth in new capital expenditures at about the 1977 rate. High annual increases are again expected in the early 1980s when oil sands developments, the Alaska Highway pipeline and other major projects will generate new investments.

Sectoral Review

- Alberta's net farm income rose from \$270 million in 1970 to \$893 million in 1975, mainly on the strength of increased grain prices. Production costs increases caught up with price increases in 1976, resulting in a decline of net farm income to \$733 million. This trend continued in 1977, with net farm income dropping to \$625 million. A substantial upswing in beef prices may improve the situation somewhat, although lower quality of grain in 1978 may have an opposite effect.
- Alberta's production of bituminous and sub-bituminous coal more than doubled from 1970 to 1977 when it reached 15.6 million short tons. Total coal production in 1978 should be around the 1977 level but the output of thermal coal will increase, while metallurgical coal output will decline. The demand for thermal coal is expected to remain strong in the longer term as a result of expanded shipments to Ontario Hydro and increasing electrical generating capacity in Alberta. The use of thermal coal to generate steam for on-site extraction of bitumen from the oil sands may also expand its use in the future.
- Crude oil production peaked in 1973 at 523 million barrels, but by 1977 production had declined to 384 million barrels. This downward trend will continue through 1982, but will be slowed somewhat by increased production from Alberta's oil sands. Natural gas production has experienced a steady increase over the past five years, reaching 3 143 billion cubic feet in 1977. Production levels in 1978 are expected to remain at this level or decline slightly. Lack of markets and depressed demand rather than physical availability are the chief causes of this reversal.
- Alberta's manufacturing industries have not succeeded in increasing their share of provincial value-added over the past several years despite rapid growth in Alberta's economy. In 1976 they accounted for slightly less than 10 per cent of total output in Alberta, compared with 20 per cent nationally. Over the past five years, the composition of Alberta's manufacturing industries has slowly begun to shift away from the traditional dominance of the food and beverage industry. In 1971, over 26 per cent of manufacturing value-added came from food and beverages, while in 1976 it had dropped to less than 24 per cent. The petrochemical industry is expanding to further increase its share of manufacturing value-added if it can overcome world marketing problems. Similarly, the lumber industry's medium-term viability depends on international market demand. The outlook for the pulp and paper industry over the next five years appears encouraging.

- As in other provinces, the service sector is Alberta's largest employer. As Alberta's population expanded, the service industries dramatically increased their share of provincial employment. In 1977 this sector generated half of provincial value-added and approximately two-thirds of provincial employment. The fastest growing component of this sector is financial services, which is increasing due to the financial requirements of the large energy projects and the attraction of the short-term money markets to Alberta because of the Heritage Savings Trust Fund. This trend should continue at least through the early 1980s. The Alberta tourism industry may be an increasingly important part of the service sector in the future, as indicated by the success of the "Stamp Around Alberta" program.

Sub-Provincial Circumstances

Alberta's dependence upon energy, agriculture and construction created a geographic imbalance in the distribution of the benefits of economic growth. This economic imbalance has been seen in the rapid growth in the Edmonton-Calgary corridor in contrast to the limited opportunities in the rural areas of northern and east-central Alberta. Although the trend has been slowing, employment growth in the corridor remains strong. Currently about 70 per cent of total employment is in this area.

Despite relatively slow growth in the past, many rural communities have the potential to diversify their economic base and participate in the province's economic growth. Further processing of agricultural and forest products could lead to increased activity in all economic sectors of the rural community. This could be further supplemented by increased tourism development.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

Construction of the Alberta portion of the Alaska Highway natural gas pipeline is now expected to commence in late 1979 and be completed in 1983. This project will provide a major stimulus to the province since a sizeable portion of the labour and materials will come from Alberta.

Three energy-related ventures may commence during the next five years: Syncrude may expand as early as 1984; Shell has proposed a \$4.1-billion plant to be begun in 1981; and Imperial Oil has proposed the construction of an on-site heavy oil plant near Cold Lake. The scale and timing of these developments will depend upon the future world price for crude oil.

Several heavy oil upgrading facilities have been discussed for the Lloydminster area of Alberta or Saskatchewan with construction schedules indicating a 1982 completion.

The development of a major petrochemical industry has been identified as a significant development opportunity for Alberta. However, in the medium term there is still uncertainty over markets, particularly in view of excess North American capacity and the effects of existing tariff barriers abroad on Canadian petrochemicals.

Market considerations, as well as capital availability and transportation costs, will be major considerations in the decision as to whether construction of the proposed \$250-million pulp mill at Whitecourt will go ahead in 1982 as planned.

The further processing of Alberta's farm products could benefit the agricultural industry. As well, farmers' incomes could be enhanced through alternate markets for existing production and through growing new crops for new markets. This potential could also help to further stimulate the rural economy.

In summary, Alberta's medium-term prospects are closely related to those of the energy sector. Although the exact timing of major energy projects is uncertain, the medium-term outlook in general is bright. Selected prospects outside of the energy sector also contribute to the positive outlook for the early 1980s.



BRITISH COLUMBIA

OVERVIEW

Real output in British Columbia is forecast to rise by 3.7 per cent in 1978, somewhat below the 5 per cent increase achieved in 1977. The outlook for 1979 suggests that real growth in the provincial economy will stay around the 1978 rate with increased activity primarily in the mining and construction sectors expected to offset a levelling-off in the forest industries.

Recent years have seen a convergence of the economic growth trends of British Columbia with those of the rest of the country, in contrast to the more rapid growth of the province prior to the mid-1970s. The slower rate of growth in the British Columbia economy is the result of a slowdown in the world economy and corresponding weak markets for British Columbia's resource-based products. A strong performance in employment creation during the first half of 1978 lowered British Columbia's traditionally high unemployment rate to 8.2 per cent in October from 8.4 per cent in the corresponding month of 1977. Weaker employment growth is forecast for 1979, with the average unemployment rate expected to rise to around 8.3 per cent.

New capital investment is expected to increase by 11.6 per cent in current dollar terms in 1978, an improvement over the 8.1 per cent recorded in 1977. The provincial government announced a budget surplus of \$140 million for the 1977-78 fiscal year.

The medium-term prospects of the British Columbia economy suggest a continuation of moderate growth. Although major increases in international demand for British Columbia exports are not expected in the shorter term, unanticipated demand for some products (e.g. newsprint

and construction lumber) or unexpected interruptions to world supplies (e.g. copper) could significantly benefit the provincial economy.

In comparison to the "Economic Circumstances and Medium-Term Prospects by Province" published in February 1978, the current circumstances of British Columbia's economy show signs of improvement with the medium-term prospects indicating moderate growth. An increase in investment spending, as well as increased manufacturing output (lumber and pulp and paper), has helped to stimulate a slightly improved rate of real economic growth in British Columbia. The medium-term prospects would be strongly influenced by improvements in world demand for British Columbia's primary forest and mineral products.

ECONOMIC CIRCUMSTANCES

Demographic Trends

The population of British Columbia on July 1, 1978 was estimated to be 2 533 000, an increase of 35 000 during the previous year. This is substantially below growth levels of the early 1970s and reflects, in part, the very buoyant economic conditions in Alberta.

The province, traditionally the major recipient of interprovincial migration in western Canada, has recently lost this position to Alberta. British Columbia's population in the period 1971-76 grew by 12.9 per cent, down from 16.6 per cent for the 1966-71 period. Population in the Vancouver-centered Lower Mainland grew by 6.1 per cent, while the Victoria metropolitan area population increased by 9.7 per cent. In comparison, non-metropolitan areas recorded a population growth of 16.2 per cent during the same period.

Labour Markets

The British Columbia labour market is characterized by a persistently high rate of unemployment, averaging 7.7 per cent for the last five years. However, a strong performance in employment creation in the first 10 months of 1978 resulted in a lower rate of unemployment. Average weekly wages and salaries in British Columbia, at over \$300, continue to be the highest in Canada.

Investment Climate

The climate for investment in British Columbia has improved in recent years. Historically, investments in the province have been dominated by large-scale resource and utility developments. Recent initiatives to promote small business, particularly in manufacturing and the travel industry, are expected to have important local impacts. As an energy-rich province, the medium-term prospects for British Columbia will remain favourable with respect to capital investment in energy as well as the forestry and mineral industries. New capital investment

estimated at \$6.3 billion in 1978 will represent an increase of 11.6 per cent over the previous year, and will exceed the national increase of 7.4 per cent.

Sectoral Review

- In the agricultural sector, farm cash receipts for 1977 totalled \$494 million, slightly up from 1976. Current information indicates that ranchers and fruit farmers will have a good year in 1978 and that favourable fall weather will modify earlier predictions of vegetable and grain crop losses. Present expectations are that 1978 will be a near record year.
- Following the records set in 1976 and 1977, the fishing industry may again register a good year in terms of value of fish landed. However, international fishing disputes and increasing foreign control of fish processing are issues of concern in this industry.
- The value of mineral production in 1978 is expected to exceed \$2 billion, stimulated by an increased value of petroleum and natural gas sales and slightly higher production of coal in conjunction with stable prices. This impressive performance will take place despite closures of several mines due to ore depletion and continued low copper prices. However, there are indications that markets and prices are gradually recovering as the world copper stockpile is reduced and world demand for lead, zinc, molybdenum and asbestos becomes firmer. Developments in 1978 include the first full year of production from the Afton copper mine and smelter complex near Kamloops and the announcement of the reopening of a major molybdenum mine in the northwest. As a large portion of British Columbia's mineral exports are priced in U.S. dollars, recent Canadian dollar devaluation has had a considerable beneficial impact on the industry.
- The strength of the manufacturing sector is largely attributable to increased lumber and pulp and paper production, which registered significant gains in the first half of 1978 compared to the same period of the previous year. In the first six months of 1978 the value of total factory shipments was up by nearly 20 per cent. Much of the gain in the value of manufacturing shipments can be attributed to the fact that many resource-based manufactured products are sold in the United States and that the transactions are in U.S. dollars. Recent announcements concerning the construction of new ferries at a cost of \$60 million may help to avert anticipated problems in the B.C. shipbuilding industry.
- The lower valued dollar and a sluggish domestic economy have made 1978 a record year for tourism in British Columbia as more residents have taken their holidays locally and more non-residents have been attracted to the province. Efforts by the federal and provincial governments to develop the potential of the travel

industry are expected to assist in maintaining the momentum generated by recent increases in activity.

- The slump in residential construction from levels registered in previous years continues in 1978 with little prospect for an early return to earlier levels. In the first six months of 1978 the value of building permits fell by nearly 8 per cent from the same period in 1977. Similarly, housing starts were down by over 16 per cent.

Sub-Provincial Circumstances

The Alaska Highway natural gas pipeline and the Revelstoke Dam projects may have a significant impact on the provincial economy, especially in certain non-metropolitan areas. The announced modernization of existing facilities in the resource-based industries and a number of other mining, forest-based and utility industry developments suggest continued growth in the interior of the province. However, much of this investment is in capital-intensive operations and, while implying significant construction activity, does not necessarily lead to large-scale permanent employment creation. Recently federal/provincial government programs have been announced that will broaden the economic base of non-metropolitan communities through assistance to the manufacturing and travel industries.

MAJOR ECONOMIC DEVELOPMENT PROSPECTS

External factors will dominate the medium-term future of the province.

Investment decisions relating to thermal and metallurgical coal resources, copper resources, interior sawmilling development and pulp and paper opportunities will, as always, be determined largely by export demand.

Significant new gas discoveries in northeast British Columbia, the Alaska Highway natural gas pipeline and the construction of more hydro-electric generating capacity in northern British Columbia are additional development opportunities that may come to fruition in the next few years.

Current overcapacity in the world steel industry has resulted in lower prices for metallurgical coal and fewer new contracts. North-east coal and expanded Kootenay coal production are unlikely to find markets before the 1980s. The full exploitation of these developments will likely require additional port facilities at Prince Rupert and Vancouver and additional bulk railhandling facilities. Development of deposits at Hat Creek, near Kamloops, for domestic thermal power generation is a major opportunity that could be realized in the medium term. Thermal coal production for export, mainly to Japan and Korea, may be brought on-stream from existing coal mine operations in the East Kootenays, or by new production near tidewater on Vancouver Island, and, possibly, as a result of activity at Hat Creek.

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

The sawmilling potential in the northern interior has not been fully realized. Increased activity in this sector could result in the construction of new sawmills. Also, an opportunity appears to exist for expansion of pulp and paper capacity in the province. Both coastal and interior locations have been suggested.

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

The current rate of population growth may well continue for several years, partially as a result of continued buoyancy in the Alberta economy, and may, perhaps, result in reduced local demands for residential housing. On the other hand, Alberta's growth has positive effects on British Columbia and may well lead, for example, to increased transportation investment, particularly in port development.

In summary, the medium-term prospects for the British Columbia economy are generally good, although they are highly dependant on developments on the international scene and in adjacent provinces.



DISCUSSION PAPER

**CANADIAN MANUFACTURING PROSPECTS
FROM A REGIONAL PERSPECTIVE**

JANUARY 1978



I OVERVIEW

Purpose and Organization

1. The objectives of this paper are:
 - (1) to review the current role of the manufacturing industry in each of the regional economies;
 - (2) to describe the broad opportunities (comparative advantages) and constraints in each region respecting further manufacturing growth;
 - (3) to assess the problems and prospects for each region's key manufacturing sectors, focusing principally on the period through 1985.

The paper is not intended to be an exhaustive treatment of the manufacturing industry in Canada. Rather, it is an attempt to provide a regional perspective that is complementary to the sector-by-sector analyses provided by the Department of Industry, Trade and Commerce.

2. The organization of the paper reflects these objectives. There are four regional reviews (Parts II-V) within which the subsections are organized in order of points (1) to (3) above. The remainder of Part I serves as an executive summary which compares the prospects among regions under the topic headings noted above. An Appendix presents changes in manufacturing employment by region and by subsector between 1976 and 1977. Although the paper is organized in terms of four principal regions — Atlantic, Quebec, Ontario and West — these are not treated as homogeneous areas. Consideration is given to the manufacturing prospects within each province, and in some cases, within sub-provincial areas.

The Manufacturing Industry in the Regional Economies

3. In 1976, manufacturing accounted for 20 per cent of Canadian employment, a share which has slipped steadily in recent years. At the same time, productivity has improved so that the share of real domestic product associated with manufacturing has remained roughly constant at about 22 per cent for more than a decade. In 1976 the shares of employment in manufacturing in the regional economies were as follows: Atlantic 14 per cent, Quebec 24 per cent, Ontario 25 per cent, and the West 12 per cent. The shares of manufacturing in total regional output were: Atlantic 14 per cent, Quebec 25 per cent, Ontario 29 per cent, and the West 13 per cent. At the national level, Ontario is dominant, accounting for over half of Canada's manufacturing output. Quebec contributes just over a quarter, a share which has been slowly declining for many years. The West now accounts for 17 per cent of total national manufacturing output and its share has been steadily growing. The Atlantic manufacturing sector contributes only 4 per cent to the Canadian total although in certain sectors — e.g., fish products, pulp and paper — it is an important producer at the national scale. There are important intra-regional variations in these aggregate statistics. For example, in 1974, manufacturing accounted for over 20 per cent of provincial real domestic product in New Brunswick but for only 8.2 per cent in Newfoundland. Similar differences are observed in the West where manufacturing is relatively much more important in the economy of British Columbia than of Saskatchewan.

4. The mix of manufacturing activity is rather sharply differentiated among regions with the West and Atlantic specializing in resource-related processing, Ontario in durable goods and Quebec in non-durables, particularly textiles and related products. The food and beverage and pulp and paper sectors are important in all regions. In the Atlantic, almost 30 per cent of manufacturing value added and 14 per cent of manufacturing employment is contributed by the pulp and paper industry. Fish processing is an even more important employer with 16 per cent of the manufacturing labour force. In Quebec, the secteurs mous (textiles, leather products, knitting mills, and clothing) accounted for 25 per cent of manufacturing employment in 1974 but this had dropped sharply to about 20 per cent by mid-1977. Quebec manufacturing is quite well diversified in other sectors including food and beverages, pulp and paper, metal processing, chemical and pharmaceutical products, and transportation equipment. Ontario's manufacturing industry is the most diversified in Canada with strength in virtually all sectors. The leaders are transportation equipment (principally automobiles and parts), food and beverages, metal processing, electrical products, chemicals, and machinery. The West is dominated by three sectors — food and beverages, wood products, and paper and allied products — which together account for about half of total manufacturing employment and output.

5. The recent performance of Canada's manufacturing industry has not been encouraging. Real output did not increase between 1974 and 1976 and employment declined by about 80,000. The impact of the downturn was felt disproportionately in Quebec where over 30,000 manufacturing jobs were lost between 1974 and 1976. Preliminary figures for 1977 (see Table 9 in the Appendix) indicate a worsening trend. Between the first ten months of 1976 and the corresponding period in 1977, average national employment in manufacturing declined by 34,000 with 85 per cent of the losses in Quebec. Over 65 per cent of the Quebec decline — 20,000 jobs — occurred in the secteurs mous. The impact has been particularly severe in the Montreal region which is the location of about 70 per cent of Quebec's manufacturing employment.

Comparative Regional Advantages and Constraints

6. Opportunities exist in all regions and each region has specific problems which, if not dealt with, will likely impede further growth and in many cases lead to declines in regional employment. However, a comparison among regions suggests that future manufacturing opportunities and constraints are not equally distributed. Sectoral comparisons indicate that the prospects for the Atlantic and Quebec are generally worse than those for Ontario and the West.

7. An important advantage possessed by the Atlantic Region is its strategic location from which to trade with Europe and the eastern seaboard of the United States. The region's comparative advantage lies in its resource base — primarily forests, fish, and certain minerals. However, for the present, diminished primary fish and forest resources are limiting growth. Transportation costs, despite subsidies, reduce the ability of Atlantic region manufacturers to compete in Canadian markets outside the region. As well, the export orientation of many Atlantic manufacturers makes them relatively more vulnerable to external policies and economic factors than their counterparts, particularly in Ontario.

8. The Western provinces — especially British Columbia and Alberta — also possess a locational advantage; one from which trade with Pacific Rim countries can potentially be greatly expanded. The western resource base is considerably larger than that of the Atlantic provinces and the existence of several dynamic metropolitan centres gives this region a further advantage over its eastern counterpart. However, western manufacturing is expected to remain relatively narrowly based in the medium term and thus vulnerable to unstable world markets in the resource sector. Transportation costs and policies are still thought to work against a substantial growth in secondary manufacturing although these same policies have favoured primary producers. In many areas of the Prairies, a scarcity of fresh water is an important constraint to the establishment of further manufacturing. The future exploitation of certain resources, particularly energy, may also be limited by shortages of appropriately skilled labour.

9. Southern Ontario has a locational advantage with respect to the U.S. and domestic markets. Other structural factors which currently tend to favour this area of the province include its mix of industrial sectors (both in its diversification and its dominant sectors), its well-balanced urban structure, and its highly developed industrial and social infrastructure. Northern Ontario, and to a lesser extent the eastern part of the province, do not share these advantages. The north depends on manufacturing that is closely related to the resource sector and because of its relative isolation has had difficulty attracting a more diversified manufacturing base. Manufacturing in eastern Ontario tends to be concentrated in sectors (e.g. textiles) which face increasingly strong foreign competition.

10. Quebec and Ontario have traditionally shared the position of Canada's manufacturing heartland. Quebec has been better endowed with certain natural resources, notably iron ore, asbestos and hydroelectricity. However, the overriding problem in the province has been the heavy concentration of manufacturing in relatively low-productivity, labour-intensive industries that are less and less able to compete against foreign suppliers, even with tariff protection. There are important intra-regional variations in manufacturing activity within the province. Over 70 per cent of manufacturing employment in Quebec is concentrated in the Montreal region. In other regions, manufacturing activity is less diversified and is often closely related to the exploitation of natural resources. These regions are highly sensitive to world market fluctuations and include many communities which depend on a single industry. Other regions face important adjustment problems because a high proportion of their industries are concentrated in traditional sectors. On the other hand, Quebec has a number of comparative advantages which could lead to the development of new industries: the attraction of the Montreal urban area, a well-qualified labour force, the abundance of natural resources including hydroelectricity, and a strong industrial base and technological competence in some sectors. However, the perception of greater opportunities in other Canadian regions may be making it more difficult to attract to Quebec private investment in modern and high-technology manufacturing which could replace the declining sectors.

11. There are of course, other factors which will tend to influence the location of future manufacturing. For example, one of the traditional advantages of Eastern Canada from the entrepreneur's point of view has been its lower cost of labour. However, regional wage differentials have all but disappeared in many sectors. Other less easily quantified factors which differ among regions include access to venture capital, managerial skills, work force skills, and labour-management relations.

Summary of Regional Prospects in Key Manufacturing Sectors

12. **Atlantic:** The outlook to 1985 is less bright in the Atlantic Region than in the Ontario or Western Region. Barring a bonanza such as the discovery of substantial offshore oil or gas, the region may be pressed to hold its national share of manufacturing output. The principal problem is with the fish and forest resource bases from which the Atlantic Region derives over 30 per cent of its manufacturing employment and value added. New fisheries management policies will enable the strong recovery of many stocks over the next 10 years and it is expected that employment in fish processing will increase in step, but this will take time. To take advantage of the opportunities in the Atlantic fishery, the resource will have to be harvested and processed at a competitive cost and new foreign markets will have to be penetrated. Good forest management policies will be needed to bring wood resources back to their former quantity and quality. This too will take time. Meanwhile, the pulp and paper industry appears able to hold its own in terms of output. Growth potential exists in shipbuilding and especially in ship repair. This could result from the eventual renewal and expansion of the

fishing fleet and, in the longer term, from the construction of Arctic vessels such as icebreakers and, possibly LNG tankers. However, to capture a significant share of this demand, the industry would probably need some form of continuing government support.

13. *Quebec*: The sectoral outlook in Quebec is the least favourable among the regions in the short and medium term. The Quebec manufacturing industry is facing a serious adjustment problem. Between the first 10 months of 1976 and the corresponding period in 1977, there was a decline in overall manufacturing employment of almost 5 per cent which represented a net loss of about 30,000 jobs in one year (Table 9). The textile, footwear, clothing, and knitting industries and pulp and paper and allied products have been the hardest hit with total losses of over 30,000 jobs. The furniture industry, which employed about 20,000 workers in 1976, also faces particularly difficult adjustment problems. The Quebec pulp and paper industry which is the second largest employer among the Quebec industries (40,000 in 1976) has experienced a deterioration in its competitive position and is in need of a cost structure more in line with its major competitors. International competition, aging equipment, industrial fragmentation and labour costs are some of the key factors affecting these industries. The outlook is more promising in the resource-based industries — e.g. asbestos, where new mines and secondary processing are expected to increase employment in the medium term. There is potential to strengthen the province's established position in the transportation equipment industry, particularly in public transportation equipment, the aerospace, and the shipbuilding subsectors. Abundant and competitively priced electric energy is counted on to strengthen the electro-metallurgical and electro-chemical industries, including aluminum processing. Growth is also anticipated in the petrochemical and electronics industries and in some groups of the food products industry.

14. *Ontario*: Average monthly employment in Ontario manufacturing was unchanged at 924,000 between the first 10 months of 1976 and the corresponding period in 1977 (Table 9). On a sectoral basis, however, there were some significant declines — for example, 5,000 jobs in textiles, 5,000 in non-metallic mineral products, and 14,000 in electrical products. These losses were offset by increases in most manufacturing sectors, led by a rise of about 13,000 in transportation equipment. If cost-competitiveness can be re-established and investment stimulated, the overall outlook for Ontario manufacturing is encouraging. However, there will probably be a continuing decline in certain weak sectors (e.g., textiles) and considerable adjustment at the firm or subsector level in industries which as a whole appear strong (e.g., machinery). Despite soft world markets, the position of Ontario's steel industry is relatively good. The production of automobiles and urban transportation equipment is stable and steps are being taken to correct a serious trade deficit in auto parts. The aerospace industry is sound, but will depend heavily on military work. Ontario should continue to benefit from the rapid growth that is forecast for petrochemicals. The forest products industry in the province faces problems similar to those of its Quebec counterpart but with investments in mill modernization, forest management, and supporting infrastructure, employment and output should remain relatively steady. Telecommunications offer good output growth potential but automation will reduce the impact on jobs. The machinery sector is well established in Ontario and is expected to provide a good focus for high-technology growth. The processing of metallic ores offers good prospects over the long term, but fluctuations in international demand create depressed conditions from time to time, the effects of which are strongly felt in Northern Ontario.

15. *West*: The outlook for growth in manufacturing is most favourable in the western provinces, particularly in Alberta and British Columbia, although to some extent this is due to the west's relatively small manufacturing base at present. In Manitoba, where there are a number of troubled secondary industries, some weakness is foreseen. Manufacturing in Saskatchewan contributes only 5 per cent of total provincial product and difficulty may be experienced in parts of the food and beverages and farm implements subsectors. In Alberta, Saskatchewan and British Columbia, manufacturing related to energy production is expected to provide major momentum. The exploitation of tar sands and heavy oil deposits, the construction of the Alaska pipeline, and the expansion of the petrochemical industry in Alberta all offer significant manufacturing opportunities. A limiting factor could be a shortage of skilled labour. The resource industries will need increasing numbers of off-highway carriers and these are already being produced in the region. Good opportunities are foreseen for expanded processing of many agricultural products. Increased salmon harvesting is anticipated over the longer term as a result of salmonid enhancement program in British Columbia. The forest products industry is expected to remain strong with pulp and paper stable.

II MANUFACTURING PROSPECTS IN THE ATLANTIC REGION

The Role of Manufacturing in the Atlantic Region

16. Between 1961 and 1976, manufacturing employment in the Atlantic provinces increased by about 35,000 (54 per cent) to 100,000. This level is slightly more than 5 per cent of total manufacturing employment in Canada, an increase from 4.4 per cent in 1961. Manufacturing accounts for between 14 per cent and 15 per cent of the employed labour force in the Atlantic region compared with about 20 per cent in Canada as a whole. The Atlantic Region's share of Canada's total value added in manufacturing is currently about 4.0 per cent, an increase from 3.3 per cent in 1971. While not large in the overall Canadian context, the manufacturing sector's contribution to the Atlantic economy, has increased in importance over the past 15 years.

17. The slight downturn in both value added and employment in 1976 (see Table 1) follows a national pattern which reveals a slight absolute drop in both manufacturing employment and value added between 1974 and 1976. The effect of the economic downturn was relatively more severe in the Atlantic than in other regions. For example, Atlantic manufacturing employment declined by over 7 per cent between 1974 and 1976, compared with a drop of less than 3 per cent on Ontario. And while Ontario was able to maintain the level of its manufacturing value added between 1974 and 1976, the Atlantic lost 4.6 per cent (in constant 1971 dollars). These data do not imply a permanent erosion of the gains registered by the Atlantic manufacturing industry since the early 1960's but rather indicate the greater relative sensitivity of the Atlantic Region to sluggish economic conditions in Canada and its principal trading partners.

TABLE 1

MANUFACTURING INDUSTRIES — ATLANTIC REGION
(a) OUTPUT (millions 1971 Dollars)¹

Year	Regional Real Domestic Product	RDP In Manufacturing	RDP In Manufacturing as a per cent of RDP	RDP In Manufacturing as a per cent of Canada Total
1961	3 150	383	12.2	3.7
1971	5 070	626	12.3	3.3
1974	5 892	947	16.1	4.2
1976	6 324	903	14.3	4.0

(b) EMPLOYMENT (thousands)²

Year	Total Employment	Employment In Manufacturing	Manufacturing Employment as a per cent of Total	Manufacturing Employment as a per cent of Canada Total
1971	628	96	15.3	5.3
1974	710	108	15.2	5.3
1976	729	100	13.7	5.1

Sources: ¹Estimates by Conference Board in Canada

²Labour Force Survey Division of Statistics Canada.

18. The distribution of value added and employment by manufacturing subgroup in the Atlantic is shown in Table 2 (based on 1974 data). Gaps in the table are the result of confidentiality requirements imposed when only a small number of reporting establishments exist. The gaps do not necessarily indicate that the omitted data are insignificant. For example: in 1974 the SYSCO steel plant (which would fall under primary metals) employed almost 4,000; the Michelin tire plants in Nova Scotia (under rubber and plastic products) employed about 2,200; and the Bathurst lead smelter 550. In the transportation equipment category — including for example, various shipyards, the Volvo assembly plant in Halifax, the Trenton car works — there were about 7,300 employed in Nova Scotia and New Brunswick alone. The corresponding value added was over \$100 million making the transportation equipment sector the third most important in the regional manufacturing economy after food and beverages and paper and allied products.

Comparative Advantages and Constraints

19. The location of the Atlantic Region, traditionally a disadvantage in terms of North American markets, has become increasingly strategic as the industrialized areas of North America and Europe grow more economically interdependent. Halifax and Saint John have already achieved rapid rates of growth in traffic as a result of the shift to containerized cargo, and there may be additional opportunities to move towards an integrated transportation and distribution system to service international traffic. In addition, the existence at Canso, Lorneville, and Come-by-Chance of three of the best deep-water ports on the Atlantic seaboard provides a capability for servicing giant bulk cargo vessels and for establishing related onshore industries.

¹Policy for Canada's Commercial Trade Relations, 1976, p. 10.

20. Relative to its population and area the Atlantic Region is well endowed with many of the natural resources required for self-sustained growth. There are some excellent agricultural lands, extensive forests, a number of important minerals, some of the world's richest fishing waters, and good potential supplies of energy, including coal (Nova Scotia), hydro (Newfoundland and New Brunswick), and tidal (Nova Scotia and New Brunswick). Many of these resources exist in exportable surplus and in addition may be adequate to support a growing number of manufacturers intent on supplying the regional market.

TABLE 2

**MANUFACTURING EMPLOYMENT AND VALUE ADDED
BY INDUSTRY GROUP IN ATLANTIC REGION — 1974**

Industry group	Manufacturing Employment		Value Added	
	Number	Per cent of total	\$ million	Per cent of total
1. Food and beverages	26 862	32.2	328	21.8
2. Tobacco products	—	—	—	—
3. Rubber and plastic products	—	—	—	—
4. Leather	—	—	—	—
5. Textiles	1 553	1.9	15	1.0
6. Knitting mills	—	—	—	—
7. Clothing	—	—	—	—
8. Wood	6 962	8.3	83	5.5
9. Furniture and fixtures	—	—	—	—
10. Paper and allied	11 795	14.1	457	30.4
11. Printing and publishing	3 135	3.8	49	3.3
12. Primary metals	—	—	—	—
13. Metal fabricating	3 744	4.5	62	4.1
14. Machinery	762	0.9	9	0.6
15. Transportation equipment	—	—	—	—
16. Electric products	2 415	2.9	33	2.2
17. Nonmetallic mineral products	2 470	3.0	52	3.5
18. Petroleum and coal	—	—	—	—
19. Chemical and chemical products	1 149	1.4	30	2.0
20. Miscellaneous	579	0.7	6	0.4
21. Total	83 489		1 505	

Note: Absence of data for certain sectors reflects insufficient number of reporting establishments, but not necessarily insignificant level of employees or value added. (See para. 18.) Percentages refer to the true totals, i.e., taking into account the entries that are unreported in the table. The total employment figure differs from the Labour Force Survey number in Table 1 because of a different reporting methodology. The value added figures are in 1974 dollars and thus differ from the output figure in Table 1 which is calculated in 1971 dollars.

Source: Statistics Canada Catalogue; #31-203.

21. The Atlantic Region shares with the rest of Canada the major constraints to expanded manufacturing activity — viz., shortage of private investment with which to create more productive plants, and a cost structure that has rendered Canadian manufacturers less competitive at home and abroad. A facet of this problem which is particularly severe in the Atlantic Region is the present cost and availability of energy. In 1974 the cost of fuel and electricity amounted to 11 per cent of value added in Atlantic manufacturing industries compared with about 5 per cent in the rest of the country. This comparative disadvantage may disappear as the cheaper hydro sources in Ontario and Quebec reach capacity, but certainly one cannot foresee any decline in energy costs in the Atlantic Region though with appropriate development of existing potential there should be no long term shortage of energy supply.

22. With the exception of Prince Edward Island, the manufacturing industries in the Atlantic Region produce a significant share of output for foreign markets. Exports, largely to Europe and the United States, account for about 35 per cent of manufacturing shipments in the region. This is in contrast to Canada as a whole where only about 20 per cent of manufacturing shipments are exported. In Newfoundland, more than 60 per cent of manufacturing shipments are destined for foreign markets. Because of this export orientation, the manufacturing sector in the Atlantic Region is more vulnerable to changes in external economic and institutional circumstances than are most other regions — particularly Ontario and Quebec — which are less dependent on foreign markets.

23. Transportation costs constrain the ability of many Atlantic Region manufacturers to compete effectively in other Canadian markets. Despite subsidies for land transport out of the region, the effect of distance from central Canada cannot be eliminated. Moreover, transportation costs could become relatively more important as petroleum prices rise. Although distance may prevent substantial increases in sales of Atlantic manufactured goods in the rest of Canada, the same factor may encourage greater import substitution within the Atlantic Region.

Outlook for Key Manufacturing Sectors

24. The following industries are of key importance because of their present and potential significance within the regional economy: fish processing, pulp and paper, shipbuilding and steel.

25. In 1974, fish processing employed about 13,000 (16 per cent of the Atlantic Region's manufacturing labour force) and contributed \$130 million of value added (8 per cent of the manufacturing total). In recent years the industry has been plagued by declining landings as northwest Atlantic stocks were depleted by heavy foreign and domestic harvesting. With the declaration of the 200-mile limit and the adoption of a resource management strategy for the fishery, most stocks can be expected to recover their former (1950) levels within less than a decade. The Gulf of St. Lawrence stocks will probably be slower to recover, those off the coast of Labrador quicker.

26. The 200-mile limit could bring major economic benefits to the Atlantic Region but much will depend on Canada's ability to exploit the resources at a competitive cost and to market much larger processed harvests. This will probably require the significant penetration of markets other than the U.S., which now has the opportunity to more fully exploit major stocks of its own. Canada's ability to capture its potential share of the world fish processing industry will depend on its ability to harvest the resource at competitive cost. In this regard, many European nations are more advanced and the acquisition by Canadian fishermen of improved technology will be necessary to exploit fully the new opportunities.

27. The fishing industry has strong links with the rest of the Atlantic Region's economy. It has been estimated¹, for example, that every job lost or gained in fish processing in Nova Scotia leads to 2.3 jobs lost or created elsewhere in the province. The boatbuilding industry, in particular, could potentially reap large benefits from the renewal and expansion of the offshore fleet. However, the future competitiveness of the Canadian fishing industry will depend on keeping capital costs at a minimum and this will tend to work against Canadian shipbuilders whose costs, even with substantial subsidies, may prevent them from meeting the prices of foreign-built vessels. Nevertheless, the potential for new construction and repair is significant and with appropriate government policy and entrepreneurial initiative a healthy future for the Atlantic boatbuilding industry is possible.

28. In summary, the Atlantic fishery can expect a good recovery of stocks in most areas with a resulting increase in primary productivity but relatively little, if any, growth in primary employment. There will eventually be expanded opportunities for fish processing and other manufacturing related to the industry. But each opportunity is a challenge since international markets for fish products are expected to become more competitive than ever.

29. The paper and allied industry group — primarily pulp and paper manufacturers — dominates Atlantic region manufacturing, contributing about 30 per cent of value added and 14 per cent of manufacturing employment. As with the fishing sector, the pulp and paper industry faces serious problems of structure and resource availability. In many areas the mills have already reached the level of allowable cut for softwoods. Combined with extensive budworm infestation this implies that they will have to shift to a greater use of hardwoods. This will entail costly technical changes in the affected plants at a time when profitability is already weak. Also the demand for hardwood pulp is weaker than that for softwood pulp.

¹ Policy for Canada's Commercial Fisheries; Environment Canada, May 1976, p. 12.

30. In spite of problems, the pulp and paper industry has been quite successful in maintaining its share of markets. The three mills in Nova Scotia are in a reasonably strong position. Of the eleven in New Brunswick a small number are threatened by one or more of the following problems: old age, environmental regulations, poor markets for the output (e.g., sulphite), or wood shortage. One of the two mills still in operation in Newfoundland requires modernization. There is a possibility that the closed Labrador Linerboard Mill may reopen sometime within the next 5 years. Depending on its product at the time, an extensive mill conversion could be required. Overall, a relatively stable future is seen for the industry in the Atlantic Region with a reduction of perhaps 10 per cent in employment when and as market-led modernization takes place.

31. The sawmilling industry has also been affected by the availability and quality of the timber resource, problems which are expected to continue into the mid-1980s. There are a large number of mills, many of which are small, family operations. For example, in 1974 there were 95 mills in New Brunswick, employing 2,900. It is expected that there will be continuing rationalization into larger units but this is not expected to cause serious adjustment problems since the small mills are widely dispersed and would in most cases wind down through natural attrition.

32. The boat and shipbuilding industry in the Atlantic Region employs approximately 4,000, or 4 per cent of the manufacturing labour force. The outlook for the industry depends on opportunities to be created by the renewal and eventual expansion and maintenance of the fishing fleet and on a possible demand for liquid natural gas (LNG) tankers. If the fishing fleet becomes more concentrated in large, long range vessels¹ some smaller boatbuilders could face increasing difficulties. Moreover, it is not clear that even the large Atlantic Region's shipyards could win contracts to build the new oceangoing trawlers. A similar caveat applies to the potential market for LNG tankers. With some rationalization, the shipbuilding industry in the Atlantic Region should at least be able to hold its own, particularly if it can capture a fair share of the repair market. At present, because of insufficient capacity a great deal of potential repair work is lost to European and U.S. yards.

33. The steel industry in the Atlantic Region is dominated by a single producer, SYSCO, which currently employs about 2,200 and which in 1976 had a total income of \$100 million. The plant has been capable of producing a million tons per year in the form of rails and semi-finished steel, though in the last three years it has operated at less than half capacity. Although the plant accounts for less than 6 per cent of total Canadian steel capacity, it forms, together with the coal industry, the foundation of the economy in industrial Cape Breton. The Nova Scotia government, owners of SYSCO, covers losses which in 1976 totaled \$30 million. In view of the present surplus of world steelmaking capacity there is little prospect of a replacement of the SYSCO mill before 1985. At the same time, some renovation of SYSCO may be appropriate in the hope of stemming continued operating losses.

III MANUFACTURING PROSPECTS IN QUEBEC

The Role of Manufacturing in Quebec

34. Quebec shares with Ontario the role of industrial heartland of Canada, although the mix of manufacturing activity is quite different. In 1976, the manufacturing industry was responsible for one-quarter of the gross domestic product of Quebec, a share only slightly less than the comparable figure in Ontario. In the same year, the manufacturing sector employed almost 600,000 workers in Quebec, or 24 per cent of the provincial work force.

35. The period 1961-1976, saw the industry's share in the Quebec economy decline appreciably. The contribution of manufacturing to the gross provincial product decreased from 26.3 per cent in 1961 to 24.6 per cent in 1976. The share of manufacturing in Quebec employment decreased over the period from almost 30 per cent to 24 per cent. At the same time, Quebec's share of Canada's manufacturing employment has decreased steadily from almost 34 per cent in 1961 to just over 30 per cent in 1976 and output has declined as a percentage of the Canadian total from 30 per cent in 1961 to 26 per cent in 1976.

36. Table 4 presents the shares of output and employment in the 20 major subgroups of the Quebec manufacturing industry. The industrial structure of the province is reasonably well diversified but there is an overall emphasis on industries related to forest resources (wood, furniture, pulp and paper) and to nondurable consumer goods whose production is labour-intensive (leather, textiles, knitting mills, and clothing). Modern high-productivity industries are less well developed. For example, the machinery producing industries represented in 1974 only 3.2 per cent of manufacturing employment in Quebec as against 6.4 per cent in Ontario. The Economic Council of Canada has estimated¹ that labour productivity (output per worker) in Quebec manufacturing as a whole was only 87 per cent of the national average over the period 1970-1973. By comparison Ontario's productivity was 109 per cent of the Canada average. About half of the Quebec deficit with respect to the national average was ascribed by the province's mix of manufacturing industries.

¹At present there are 10,000 to 15,000 small craft, about 140 licensed trawlers of more than 100 feet, and about 500 vessels of intermediate size such as small druggers and longliners.

¹Living Together; Economic Council of Canada, 1977, Table 5-3, p. 66.

TABLE 3

MANUFACTURING INDUSTRIES — QUEBEC
(a) OUTPUT (millions of 1971 dollars)¹

Year	Provincial Real Domestic Product	RDP in Manufacturing	RDP in Manufacturing as a per cent of RDP	RDP in Manufacturing as a per cent of Canada Total
1961	11 911	3 130	26.3	30.3
1971	20 006	5 231	26.1	27.6
1974	23 536	6 067	25.8	26.7
1976	23 969	5 900	24.6	25.9

(b) EMPLOYMENT (thousands)²

Year	Total Employment	Employment in Manufacturing	Manufacturing Employment as a per cent of Total	Manufacturing Employment as a per cent of Canada Total
1971	2 197	578	26.3	32.2
1974	2 427	627	25.8	31.0
1976	2 479	595	24.0	30.6

Sources: ¹Estimates by the Conference Board in Canada.

²Labour Force Survey Division of Statistics Canada.

37. Quebec is heavily dependent on its manufacturing shipments to other regions of Canada. In 1974, 31 per cent of Quebec manufacturing shipments were destined elsewhere in Canada. The comparable fraction for Ontario was 24 per cent. Another important characteristic of the manufacturing industry in Quebec is the prominent role played by small and medium-sized businesses. These account for more than 48 per cent of manufacturing employment compared with 40 per cent in Ontario. The predominance of small and medium-sized enterprises is particularly strong in the traditional industries and is a factor contributing to the problems of these industries.

38. Over 70 per cent of manufacturing employment in Quebec is concentrated in the Montreal Region making the problems of the industrial structure of Montreal generally the same as those of Quebec as a whole. Manufacturing activity in other regions of the province is on the whole closely related to the exploitation of natural resources. Consequently there is relatively little industrial diversification and thus many communities depend on only one or two industries.

Comparative Advantages and Constraints

39. Quebec enjoys a number of comparative advantages on which to base the medium-term development of new industries having strong growth potential and higher levels of productivity. Among these advantages are: an important consumer market; the Montreal urban area which is well equipped with services; a generally well-qualified labour force; an abundance of natural resources including substantial hydroelectric sources; and an industrial base and a technological competence which are relatively strong in such sectors as transportation equipment and communications. These advantages should permit growth in electro-chemical and electro-metallurgical industries; and in the manufacture of urban transportation equipment, aircraft, electronics, and possibly petrochemicals. Among resource-based industries those related to asbestos, aluminum and agricultural food products show promise.

40. Nevertheless, there are a number of important problems which in the near to medium term, will continue to challenge Quebec's manufacturing industry. The most serious of these are rooted in the structure of the industry itself. Manufacturing in Quebec has recently been handicapped by its concentration in traditional slow-growth activities which have been principally oriented toward domestic markets. The province has remained specialized in activities where historically it held a comparative advantage — in industries related to primary resources (e.g., forests) or to the availability of cheap and abundant labour (e.g., the secteurs mous — textiles, leather goods, knitting mills, and clothing). For years

these comparative advantages have been steadily eroding as labour costs have increased and as new sources of certain raw materials have been developed in other countries.

The Outlook for Key Manufacturing Sectors

41. Employment in the Quebec primary textile industry declined by 25 per cent between 1973 and 1977, falling from 40,000 to about 30,000 workers. A generally declining trend has also been experienced in the clothing, knitting mills, and footwear sectors. The majority of these losses are the result of greatly intensified competition from both developing and industrialized countries. Between 1975 and 1976, for example, foreign suppliers increased their share of the Canadian market for clothing from 22 per cent to 26 per cent, and for the products of knitting mills from 49 per cent to 54 per cent.

TABLE 4

MANUFACTURING EMPLOYMENT AND VALUE ADDED BY INDUSTRY GROUP IN QUEBEC REGION — 1974

Industry group	Manufacturing Employment		Value Added ¹	
	Number	Per cent of total	\$ million	Per cent of total
1. Food and beverages	56 840	10.1	1 201	12.0
2. Tobacco products	5 818	1.1	701	1.7
3. Rubber and plastic products	13 822	2.6	219	2.2
4. Leather	12 564	2.3	133	1.3
5. Textiles	39 044	7.2	578	5.8
6. Knitting mills	16 026	3.0	178	1.8
7. Clothing	67 139	12.4	661	6.6
8. Wood	24 771	4.6	371	3.7
9. Furniture and fixtures	20 051	3.7	256	2.5
10. Paper and allied	45 367	8.4	1 195	11.9
11. Printing, publishing	25 289	4.7	489	4.9
12. Primary metals	30 267	5.6	691	6.9
13. Metal fabricating	39 161	7.2	748	7.4
14. Machinery	17 487	3.2	320	3.2
15. Transportation equipment	30 006	5.5	500	5.0
16. Electric products	33 692	6.2	635	6.3
17. Nonmetallic mineral products	15 545	2.9	346	3.4
18. Petroleum and coal	3 254	0.6	349	3.5
19. Chemical and chemical products	26 779	4.9	742	7.4
20. Miscellaneous	18 578	3.4	264	2.6
21. Total	541 500		10 045	

¹Current (1974) Dollars. See also note to Table 2.
Source: Statistics Canada Catalogue 31-203.

Between 1962 and 1976 imported footwear increased in market share from 32 per cent to 54 per cent. Part of the failure of the secteurs mous in Quebec to remain competitive is due to labour costs which are far higher (per unit of production) than those in competitor countries. There are also problems related to production scale in some subsectors. The relatively small size of the domestic market and the wide variety of product lines have often dictated production runs too short to maximize output per worker.

42. The Quebec furniture industry employed approximately 18,000 in 1976. The difficulties faced by this sector are of particular importance since in a number of cases the firms are located in communities with few other employment opportunities. Several of the most serious problems — e.g., the difficulty of selling abroad, low productivity, and weakness in product design — would probably be reduced by the regrouping or amalgamation of several production units. At present the industry is fragmented with only 10 per cent of factories employing more than 200 workers.

43. The Quebec pulp and paper industry comprises 56 mills and employs approximately 32,000 workers or about 40 per cent of total Canadian employment in this sector. The industry has seen its position weaken, particularly with respect to its American counterpart. Among causes of this relative decline are increasing costs of production, particularly for labour, and costs of transportation, of primary resources, and of equipment required by new government regulations for pollution control. To halt the decline, the Quebec pulp and paper industry will have to stabilize its unit costs of production at or below the levels of its competitors. Mill modernization and expansion should take place in response to market opportunities as demand grows to absorb current capacity. It is expected that modernization and expansion in Quebec and elsewhere can be financed from the earnings of individual firms.

44. The exploitation of new asbestos mines could give rise to important developments in the medium term. There appear to be several opportunities for the processing of asbestos despite past difficulties experienced by Quebec firms trying to enter this activity. New manufactured products might include asbestos textiles and papers, pipes of asbestos cement, as well as watertight joints and fittings of asbestos. The possibilities of extensive asbestos processing in Quebec are somewhat limited, however, by the high costs of transportation for the finished products in which the asbestos component typically constitutes only a small percentage by weight.

45. The transportation equipment industry presents several development possibilities in aeronautical and marine construction particularly as a result of military procurement requirements and of future requirements for Arctic vessels, e.g., icebreakers and, possibly, LNG tankers. Other possibilities which could build on Quebec's existing manufacturing base, include the construction of public transportation equipment such as the LRC train, buses, and other railway equipment.

46. The electro-metallurgical industry might also have an opportunity to expand, particularly in the Montreal Region which can offer electric energy at a competitive cost and in which are located many firms already specialized in this activity where sub-contracting is important.

47. There is a possibility of increasing the production capacity of the Montreal petrochemical complex, currently one of three major petrochemical centres in Canada. Most units in the complex are now producing at a competitive cost, in part because the capital costs of the plants have been substantially amortized. In the short to medium-term, most new capacity in the Canadian petrochemical industry is expected to be located in Ontario and Alberta, while in the medium to longer-term significant renewal and expansion can be anticipated in Montreal.

18. Petroleum and coal	9 436	3.1	307	1.1
19. Chemical and chemical products	11 140	3.9	1 509	7.9
20. Miscellaneous	58 508	4.5	751	3.4
IV MANUFACTURING PROSPECTS IN ONTARIO				
21. Total	68 730		19 921	

The Role of Manufacturing in Ontario

48. Ontario dominates the Canadian manufacturing industry, accounting for over half the output and just under half of total employment (Table 5). Québec, by contrast, produces just over one-quarter of the nation's manufacturing output with a little less than one-third of the manufacturing labour force. Ontario manufacturing is productive, contributing 29 per cent of Provincial Domestic Product with only 25 per cent of the employed labour force. In each of the other three regions — Atlantic, Quebec, and the West — the share of employment in manufacturing very nearly matches the share of output.

49. Ontario still possesses most of the jobs which have been lost in manufacturing since 1971. Between 1971 and 1976, the value of output (i.e., value added in constant dollars) in Ontario manufacturing advanced by 17 per cent while employment went up 10 per cent. In the economic downturn between 1974 and 1976, when national employment in manufacturing dropped by about 4 per cent, the decline in Ontario was only 2.8 per cent, the smallest relative loss among the four regions. However, over this same two-year period, while national manufacturing output was unchanged, output in Ontario declined marginally by 0.3 per cent.

TABLE 5

MANUFACTURING INDUSTRIES — ONTARIO
(a) OUTPUT (millions 1971 dollars)¹

Year	Provincial Real Domestic Product	RDP in Manufacturing	RDP in Manufacturing as a per cent of RDP	RDP in Manufacturing as a per cent of Canada Total
1961	19 105	5 245	27.5	50.8
1971	34 538	10 238	29.6	54.1
1974	40 264	12 032	29.9	47.5

(b) EMPLOYMENT (thousands)²

Year	Total Employment	Employment in Manufacturing	Manufacturing Employment as a per cent of Total	Manufacturing Employment as a per cent of Canada Total
1971	3 114	840	27.0	46.8
1974	3 550	950	26.8	46.9
1976	3 689	923	25.0	47.5 52.9

Sources: ¹Estimates by Conference Board in Canada.

²Labour Force Survey Division of Statistics Canada.

50. Provincial government sources¹ have forecast a continuing decline in the share of employment derived from manufacturing with a peaking of the manufacturing share of output by 1980 and a marginal decline by 1985. The output growth in the manufacturing sector in Ontario is thus expected to slow as the growth in aggregate demand decelerates and residential activity increases at slower rates. The auto industry will probably decline as the saturation levels of car ownership are reached and population growth declines. This forecast also recognizes the likelihood of a bigger share of manufacturing industry developing in the West. The postwar population bulge moving into the high consumption age range, 25-34, should help to maintain demand for the Ontario manufacturing industry into the early 1980s. Thereafter an expected decline in the size of that age bracket would reduce demand for manufactured consumer products provided that buying habits follow their historical pattern.

51. Table 6 shows that the Ontario manufacturing industry is well diversified. For example, of a total value added by manufacturing industries of \$20 billion in 1974, eight sectors each had a value added of more than one billion dollars. The leading group, transportation equipment, accounted for only 17 per cent of the total. This is in contrast with the Atlantic region, where, for example, the pulp and paper sector contributes about 30 per cent of manufacturing value added. This diversity gives the Ontario manufacturing industry a degree of stability that is lacking in the other regions, particularly in the West and the Atlantic.

52. Ontario has maintained a trade surplus with all other regions and its surplus of manufactured goods with the rest of Canada improved significantly between 1967 and 1974. Despite the increased cost of oil, natural gas and agricultural products over the period, Ontario was able to nearly offset the cost of its purchases with sales of goods and services to other regions and exports of manufactured products and raw materials to foreign markets. The proportion of Ontario's total shipment of goods of own manufacture destined within Canada declined from 86 per cent to 79 per cent between 1967 and 1974, representing an increase in the export proportions. In 1974, Ontario's total manufacturing shipments of \$41.4 billion were allocated as follows: \$22.6 billion (55 per cent) were destined within Ontario, \$8.8 billion (21 per cent) were exported, \$4.9 billion (12 per cent) went to Quebec, \$3.9 billion (9 per cent) to the West and the remainder, \$1.3 billion (3 per cent), to the Atlantic provinces. Total manufacturing shipments for Canada were \$82.5 billion and thus Ontario accounted for one-half.

¹Ontario Ministry of Treasury, Economics, and Intergovernmental Affairs (TEIGA); "A Long Term Projection of Ontario's Industrial Development Pattern" — June 1976.

TABLE 6

MANUFACTURING EMPLOYMENT AND VALUE ADDED BY INDUSTRY GROUP IN ONTARIO REGION — 1974

Industry group	Manufacturing Employment		Value Added ¹	
	Number	Per cent of total	\$ million	Per cent of total
1. Food and beverages	87 099	9.9	2 117	10.6
2. Tobacco products	3 551	0.4	136	0.7
3. Rubber and plastic products	34 718	3.9	730	3.7
4. Leather	13 332	1.4	139	0.7
5. Textiles	31 991	3.6	533	2.7
6. Knitting mills	7 341	0.8	78	0.4
7. Clothing	22 209	2.5	242	1.2
8. Wood	20 507	2.3	333	1.7
9. Furniture and fixtures	24 693	2.8	352	1.8
10. Paper and allied	47 404	5.4	1 222	6.3
11. Printing, publishing	47 434	5.4	869	4.4
12. Primary metals	71 487	8.1	1 748	8.8
13. Metal fabricating	89 235	10.1	1 877	9.4
14. Machinery	56 776	6.4	1 192	6.0
15. Transportation equipment	114 121	12.9	3 346	16.8
16. Electric products	90 410	10.2	1 746	8.8
17. Nonmetallic mineral products	28 734	3.3	675	3.4
18. Petroleum and coal	9 439	1.1	304	1.5
19. Chemical and chemical products	44 340	5.0	1 509	7.7
20. Miscellaneous	39 909	4.5	751	3.8
21. Total	883 730		19 921	

¹In current (1974) dollars. See also note to Table 2. CANADA
Source: Statistics Canada Catalogue #31-203.

Comparative Advantages and Constraints

53. Ontario still possesses most of the factors which have allowed it to dominate Canadian manufacturing. The size of the Ontario market and its closeness to the mid-western and northeastern United States markets are important advantages for consumer-oriented manufacturing and for exploiting economies of scale. The relative compactness of these markets, and their proximity could be increasingly important as increasing energy prices contribute to higher transportation costs. The Ontario manufacturing industry is also well placed to serve the Quebec market, particularly the Montreal area. The size and diversity of Ontario's manufacturing industry continues to be attractive in itself because it

has given rise to a full range of financial and management services and provides ready access to the suppliers of most types of equipment.

54. The availability of a highly skilled and educated work force is another key asset. The good supply of educational facilities provides a basis for future job training and for the necessary development of skills associated with the kind of high quality and high-technology manufacturing industries which Ontario will probably need to develop. Southern Ontario also provides a full range of housing, cultural and social facilities, factors which have become increasingly important in attracting and retaining a sophisticated labour force.

55. The growth of the manufacturing sector in Ontario has slowed and two of the most serious problems are, as in the rest of Canada, low levels of investment and higher costs for products that face increasingly stiff foreign competition. The two problems are related in that the lack of investment has prevented labour productivity increases commensurate with wage gains. In recent years, wage rates have grown faster overall in Canada than in the U.S. In some sectors, for example, pulp and paper, Ontario wages are now higher than their U.S. counterparts. The result is a loss of traditional export markets and a consequent inability of the sector to attract new capital, a fact which could lead to further decline. Competition from low-cost foreign producers has also reduced the share of several domestic markets which Ontario manufacturers have traditionally served. Hardest hit have been producers of footwear, clothing, textiles, electronics and toys.

56. A medium to long-term factor which could reduce the growth in demand for products on the Ontario manufacturing industry is the changing population structure. As birthrates decline, there is a trend to an older population and an associated decline in household formation. This will have an immediate effect on the size of the consumer market to be served by the manufacturing sector. Durable goods manufacturers (e.g., cars, furniture, appliances, household and electric) could therefore experience a contraction in their local markets over the next 20 years. On the other hand, entirely new products catering to a relatively older population may offset some of the decline.

57. The ability of industry to develop new products for changing and more competitive markets requires an intense and continuous effort in research and development. Ontario manufacturers as a whole lag well behind the R & D investments being made in the U.S. and in most other developed countries. Partly, this failure to invest adequately is a consequence of the "branch plant" nature of many Ontario manufacturers.

58. The growth of the manufacturing industry in Ontario has been accompanied by a heavy concentration of activity in the urban centres in the south. As a result, land costs have risen sharply and urban congestion has had for some a perceived negative impact on the quality of life. Northern Ontario, by contrast, has sought more secondary manufacturing activity. Unfortunately, this area is likely to remain less attractive because of its isolation from major consumer markets and from centres of finance, business services, and supply. A severe climate and a relative lack of cultural attractions further reduce the region's potential.

Outlook for Key Manufacturing Sectors

59. Strategic industries in Ontario include transportation equipment, iron and steel, aerospace, forest products, petrochemicals, telecommunications, machinery, and nonferrous metals. These are strategic for a variety of reasons including export potential, degree of concentration in Ontario, and growth and size of employment and output. The bulk of Ontario's manufacturing industry is located in the southern part of the province, particularly in the area extending from Niagara, through Hamilton and Toronto, to Oshawa. In addition, the area bounded by the Windsor-Montreal corridor contains an important distribution of manufacturing industry. In 1971, only 6 per cent of total manufacturing employment was located in Northern Ontario.

60. The transportation equipment industry accounts for about 12 per cent of Ontario manufacturing industry employment and about 17 per cent of output. Ontario has 96 per cent of all Canadian auto parts employees and 86 per cent of all assembly workers. The prosperity of this industry is therefore of key importance to the Ontario economy. The auto assembly industry currently enjoys a trading surplus but the growing auto parts deficit with the U.S. has caused concern and is now the subject of negotiations. The urban transportation equipment industry is healthy and enjoys good market prospects though the Ontario sector will face strong foreign and domestic competition.

61. Ontario dominates the production of iron and steel in Canada. In 1974 it had one-third of all iron and steel mill establishments, 75 per cent of all employees and 80 per cent of value added. Whereas the industry had been expanding rapidly over the past 20 years, the recent world surplus of iron and steel capacity, together with increased competition from offshore producers, has sharply reduced the scope for continued expansion. Given the current world steel making surplus, the outlook for the Ontario industry is not bright in the near future though there is optimism that demand will recover strongly in step with any general recovery of the world economy. In the short term, it is possible that the decline of the Canadian dollar will increase steel export opportunities although price competition from other major producers (e.g., Japan and Britain) may limit this potential.

62. The Canadian aerospace industry is mainly concentrated in Toronto and Montreal and is important because of its high technology characteristics. Companies range from fully-integrated operations with a wide selection of products,

to smaller enterprises specializing in only a few product lines. Supporting the major companies is a variety of aerospace jobbing shops with specialized skills in the advanced technology field. In 1975, 40 per cent of Canadian employment in this sector was in Ontario. This is the type of high-technology industry which Ontario should be able to support but a constraint has been the shortage of highly skilled tradesmen. Good prospects for the industry lie in developing and producing new technology aircraft such as the deHavilland STOL airliner; in producing components for the U.S. aerospace industry; and in obtaining defence contracts. In respect of the latter, the Canadian aerospace industry is highly dependent on "offset" agreements whereby Canadian manufacturers are guaranteed a share of the construction of military aircraft purchased abroad.

63. The Ontario forest products industry is primarily located in the northern and eastern parts of the province and is an important contributor to export earnings. In 1974, Ontario had 25 per cent of Canada's employees in pulp and paper and contributed a similar percentage of total industry value added. High labour costs, rising production costs, and the need, in some instances, for further capital investment are important difficulties currently faced by this industry which, as a consequence, has lost some markets to U.S. producers. The stability of the industry could be enhanced by investments in supporting infrastructure, and in better management of the forest resource. If these investments are made and if international demand for the product is strong and stable there should be little need for significant employment adjustment. Pulp and paper mills are of great economic importance to several remote northern and eastern communities. There are about a dozen communities in Ontario which are heavily dependent on a local mill.

64. The petrochemical industry in Ontario is predominantly located in Sarnia. In 1974, Ontario had about 40 per cent of Canada's employees in plastics and synthetic resins and accounted for a similar percentage of the industry's value added. The markets for these products are expected to remain strong. The products of the industry are oriented not only to the southern Ontario consumer market, and to the agricultural sector, but also provide important materials for other manufacturing industries in the province. The emergence of a petrochemical industry in the West may reduce somewhat the scope for future expansion in Ontario though the long-term growth trend of the industry leaves ample room for appropriately timed expansion in both Eastern and Western Canada.

65. The telecommunications industry has important high technology characteristics. In 1974, Ontario had 65 per cent of all Canadian production workers in this sector and accounted for a similar share of the total value added. Northern Telecommunications is a good example of Canadian multinational company in this field. But this does not imply that future expansion will be in Canada and indeed Northern Telecom is moving some production to the U.S. and has established a research facility in California. Nevertheless, the Ontario telecommunications industry is strong and exports have been growing.

66. The miscellaneous machinery and equipment manufacturing industry is well established in Ontario and given the size of the domestic market and the potential for export to the U.S., is expected to remain an important component of Ontario's manufacturing industry. In 1974 Ontario had 60 per cent of Canada's employees in this group and contributed 65 per cent of value added. Both employment and the value of shipments have been increasing steadily. The vitality of the industry depends to a large extent on a concentration of relatively small but high-technology enterprises which can rub shoulders and exchange new product ideas. Ontario offers an excellent environment for this activity, giving the industry a promising future. Nevertheless, there are a few instances where plants are becoming obsolescent and some adjustment at the firm level will be required.

67. The processing of nonferrous metals is a fundamentally strong industry in Ontario, but one subject to sharp swings in demand for the primary minerals. When demand is weak for a particular mineral — as is now the case for nickel — all the associated primary processing activities are adversely affected. Unfortunately, these effects are felt most strongly in Northern Ontario, where alternative economic opportunities tend to be limited. In the case of secondary processing of nonferrous minerals the principal uncertainties are posed by potential tariff cuts and by continent-wide rationalization of some segments of the industry.

V. MANUFACTURING PROSPECTS IN WESTERN CANADA

(Does not include figures for IPSCO, which has an employment of 1,000.)

The Role of Manufacturing in Western Canada

68. An accumulation of geographic, historical and demographic factors has resulted in the economy of the Western Region being highly dependent on its natural resource base. The importance of primary resource industries to Western Canada is apparent in their contribution to the region's 1974 total value added in the goods-producing industries, half of which accrued directly from the primary sectors, compared with only one-quarter nationally. If other manufacturing activities directly related to the primary resource base are included, the resource-related value added in Western Canada rises to 68 per cent of that for goods-producing industry, in contrast to 47 per cent in Canada. This heavy dependence on primary resource production and processing, with its sensitivity to fluctuations in international demand, creates instability of employment and incomes. As a result, the diversification of the western economy toward non resource-based activities has been a persistent regional objective.

69. While the west has been attracting an increasing share of total capital investment in Canada (estimated at 36 per cent in 1977), the manufacturing sector in the region remains small in relation to that of Ontario and Quebec. In 1976, for example, the four western provinces contained 27 per cent of Canada's population, but accounted for only 17 per cent of both total employment and real domestic product in manufacturing in Canada (Table 7).

TABLE 7

MANUFACTURING INDUSTRIES — WESTERN REGION

(a) OUTPUT (millions 1971 dollars)¹

Year	Regional Real Domestic Product	RDP in Manufacturing	RDP in Manufacturing as a per cent of RDP	RDP in Manufacturing as a per cent of Canada Total
1961	13 078	1 567	12.0	15.2
1971	23 191	2 840	12.2	15.0
1974	27 760	3 697	13.3	16.3
1976	30 717	3 939	12.8	17.3

(b) EMPLOYMENT (thousands)²

Year	Total Employment	Employment in Manufacturing	Manufacturing Employment as a per cent of Total	Manufacturing Employment as a per cent of Canada Total
1971	2 191	281	12.8	15.7
1974	2 512	339	13.5	16.7
1976	2 675	327	12.2	16.8

Sources: ¹Estimates by Conference Board in Canada.

²Labour Force Survey Division, Statistics Canada.

70. Almost 70 per cent of the Western Region's manufacturing activity is related directly to resource processing, with the food and beverage, wood products, and paper and allied sectors representing the predominant sources of employment and output (Table 8). As exemplified by the forest products sector, a large proportion of these activities consist of initial processing (e.g., pulp, newsprint, dimension lumber) as opposed to higher value added processing stages (e.g., fine paper, plywood, particle board).

71. Manufacturing industries in Western Canada produce a substantial share of their output for foreign markets. In 1974, for example, exports accounted for 25 per cent of manufacturing shipments in the region. (Comparable figures for Ontario and Quebec were 21 per cent and 14 per cent, respectively.) These exports consist largely of processed primary products such as pulp and paper, lumber, and processed agricultural products. A relatively large proportion of the shipments of regional manufacturers, 65 per cent in 1974, were directed to the local regional market. Thus only about 10 per cent of shipments were destined for other parts of Canada. The western market is sensitive to foreign demand for the region's primary commodities because of: (i) the strong impact which commodity exports have on the level of consumer purchasing power in the region; and (ii) the fact that a large portion of these manufactured products are used in primary resource production.

72. Western Canada's manufacturing industry is spatially concentrated. While a number of smaller communities have specific manufacturing operations on which they are heavily dependent (e.g., forestry-related single industry communities in British Columbia), manufacturing activity as a whole is concentrated in the region's seven major urban areas, which together account for over 70 per cent of manufacturing employment. From a regional perspective, the manufacturing sector is more predominant in British Columbia and Alberta than in Saskatchewan and Manitoba. In 1974, British Columbia accounted for 52 per cent and Alberta for 22 per cent of total manufacturing employment in the region.

TABLE 8

**MANUFACTURING EMPLOYMENT AND VALUE ADDED
BY INDUSTRY GROUP IN WESTERN REGION — 1974**

Industry group	Manufacturing Employment		Value Added ¹	
	Number	Per cent of total	\$ million	Per cent of total
1. Food and beverages	50 077	18.1	1,039	17.0
2. Tobacco products	—	—	—	—
3. Rubber and plastics products	2 543	0.9	52	0.9
4. Leather	967	0.3	14	0.2
5. Textiles	3 059	1.1	47	0.8
6. Knitting mills	372	0.1	5	0.1
7. Clothing	9 785	3.5	94	1.5
8. Wood	54 319	19.6	957	15.6
9. Furniture fixtures	5 860	2.1	84	1.4
10. Paper and allied	25 143	8.4	938	15.3
11. Printing, publishing	16 513	6.0	292	4.8
12. Primary metals ²	13 893	5.0	376	6.1
13. Metal fabricating	20 905	7.5	496	8.1
14. Machinery	14 130	5.1	264	4.3
15. Transportation equipment	19 746	7.1	314	5.1
16. Electric products	6 687	2.4	107	1.7
17. Nonmetallic mineral products	10 817	3.4	272	4.4
18. Petroleum and coal	2 919	1.1	174	2.8
19. Chemical and chemical products	6 904	2.5	247	4.2
20. Miscellaneous	5 329	1.9	74	1.2
21. Total	277 017		6 117	

¹In current (1974) dollars. See also note to Table 2.

²Does not include figures for IPSCO, which has employment of 1,300.

Source: Statistics Canada Catalogue 31-203.

73. Within the provincial economies, the manufacturing sector is most important in relative terms in British Columbia, which is the only province in the region with more employment in manufacturing than in primary industries. Manufacturing in British Columbia accounts for about 17 per cent of gross provincial product. Activity is concentrated, however, in forest products which contribute almost 50 per cent of value added and 40 per cent of manufacturing employment in the province. The manufacturing sector of the Manitoba economy is also relatively important, and generates about 14 per cent of gross provincial product. The comparable statistics for Alberta and Saskatchewan in 1976 were 8 per cent and 5 per cent respectively. The fastest growing manufacturing sector in the region is in Alberta,

although it remains a relatively small component of total provincial output. Food and beverages and petroleum are the most important sectors in Alberta, although mineral and wood-based activities are growing in importance. Manitoba has the most diversified (and least resource-dependent) manufacturing sector which, in addition to food, forest, and mineral processing, has significant proportions of national manufacturing employment and output in the clothing, transportation equipment, metal fabrication, and machinery sectors. These sectors, however, have not performed well in recent years; in fact, manufacturing employment in the province has declined in absolute terms. Indications are that the Manitoba situation could worsen in the near term. The smallest and most narrowly based manufacturing sector in the region is found in Saskatchewan, where it accounts for only about 5 per cent of provincial output and is highly concentrated in food and beverages.

Comparative Advantages and Constraints

74. The pattern of capital investment in Canada gives some indication that the centre of economic gravity in the country is shifting westward. This is suggested by the fact that total capital investment in all sectors in Western Canada, as a percentage of capital investment for Canada, has been increasing steadily since 1972 from 32 per cent to almost 36 per cent in 1976. Looking to the mid-1980s, on the strength of its resource endowment (particularly energy resources) and access to Pacific Rim countries, the west promises to become a more dominant force in the Canadian economy.

75. The major opportunity and thrust in the manufacturing sector will continue to be the development and upgrading of the region's natural resources. Opportunities exist for the further development of the established processing industries, as well as of emerging energy-related industries. The past experience of companies such as ATCO and Foremost suggests that there is also potential to develop specialized production skills and technologies and to expand western manufacturing to supply products such as pipe, valves, and heavy construction and off-highway transportation equipment. These products would be associated with major resource developments in pipeline construction, tar sands, coal, oil and natural gas, and uranium. In an increasing number of sectors, western-based facilities can take advantage of market opportunities provided by the combination of increasing population and consumption in the regional economy and demand elsewhere in the country. Specific opportunities include such activities as meat packing, selected cereal and high protein food products, and consumer paper products.

76. There remain constraints to the growth of the region's manufacturing sector. The western economy as a whole is based firmly on the exploitation of natural resources and the export of grains, fuels, wood, metals, etc. The economy is therefore highly vulnerable to fluctuations in demand for these products which in turn influence such dependent industries as wood processing, agricultural machinery, beef processing, and oilseed crushing.

77. Western Canada's manufacturing sector is, on the whole, more capital-intensive than that in other regions, resulting in higher productivity levels. Nevertheless, the sector remains small in the Canadian context. Generally, the industry is composed of small-scale production units and is subject to high transportation costs. This reflects, inter alia, the prior development of similar manufacturing industries in Ontario and Quebec, and the dispersed population and absence of a large regional market for western-based manufacturing output. It is argued in some circles that developments in important areas, such as trade and industrial policy, have until recently tended to focus on the requirements of the existing manufacturing base in Ontario and Quebec. Transportation policy appears to have benefited primary producers in the west but, on the other hand, has tended to favour the location of processing facilities in the east. These factors have had important side effects, such as shortages of skilled labour and management, relatively few facilities for research and development, and a lack of the financial and technical support facilities that are available in areas with a greater concentration in manufacturing. The development of the region's manufacturing sector also faces physical constraints in certain areas. For example, outside metropolitan areas the industrial infrastructure and transportation facilities tend to be underdeveloped. A further restraint to diversification and expansion of the manufacturing sector in certain areas is the availability and adequacy of water supplies. Management of this scarce resource, particularly on the Prairies, will require careful planning and investment in the years ahead.

78. The policy environment established by governments will have an important influence on the extent to which the region's manufacturing growth potential is realized. Given the manufacturing sector's strong relationship to the region's primary resource base, its development will be influenced by decisions affecting the extent and timing of resource development (e.g., taxes, royalties, depletion allowances, environmental regulation, public ownership), as well as by policy decisions directly affecting western manufacturers' access to, and competitive position in, domestic and foreign markets. For example, freight rate anomalies are said to have constrained the development of certain activities such as rapeseed processing. And customs tariff protection, although applied uniformly to all parts of Canada, has not appeared to contribute significantly to the development of western manufacturing.

Outlook for Key Manufacturing Sectors

79. Exploration and development in the oil and gas industries are expected to provide a stable share of processing activity to the mid-1980s rather than the growing share experienced during the last decade. Nevertheless, energy-related activities in general are expected to provide the principal momentum for the region's economy for the

foreseeable future. Development of tar sands extraction technology is expected to continue at its current pace, with commercial production growing during the period and perhaps with the addition of a further tar sands venture. Major development of the Lloydminster heavy oil deposits in Saskatchewan and Alberta may occur before the mid-1980s. Expansion of the petrochemical industry in Alberta into primary chemicals and major intermediates is expected with some integration to plastic and consumer goods. The latter could be especially well suited to smaller communities since operations of economic size tend to be small; low technology is required; and lower wage rates are essential for viability.

80. Plans in Alberta and British Columbia to develop both metallurgical coal for export and thermal coal for power generation could double Western Canada's coal production by 1985. In addition, it is likely that uranium production in northern Saskatchewan will grow significantly, and a uranium enrichment plant is a possibility.

81. These energy-related industries will create a growing regional market for materials and equipment of an increasingly specialized and complex nature. The demand for pipe for the Alaska Highway Pipeline may lead to expansion of the IPSCO steel plant in Regina, and there is a possibility of building pipeline valves in Alberta. There are growing industries, particularly in Alberta and British Columbia, supplying equipment for the resource-harvesting industries, and the experience of such firms as ATCO and Foremost suggests that these products can be exported as well. The construction and eventual operation of the Alaska Highway Pipeline will require many reliable off-highway carriers which should create opportunities for local manufacturers. The somewhat unique logging conditions of the entire region will require improved log skidders and trailer units to efficiently move the logs to the various pulp mills and sawmills. Additional resource developments at Fort McMurray, Cluff Lake and the Arctic Islands also continually demand improvements in off-highway transportation equipment. Farm machinery is largely imported at present, but in view of its standard technology and high freight costs, opportunities exist for import substitution.

82. The food and beverage sector is expected to offer significant manufacturing and processing growth opportunities. Factors which favour the industry include the large arable land base, limited urbanization pressure on land use and costs, untapped potential for specialty irrigation crops, and excess feedlot and slaughter facilities. A major development which could aid this sector is the South Saskatchewan River project involving a potential irrigated area in excess of 200,000 acres, of which only 55,000 acres are being utilized. This project, along with the St. Mary's, has the potential to provide, at least on a seasonal basis, much of the produce currently imported to the region e.g., carrots, cabbages, and onions. Abundant feedstuffs and adequate rangeland should ensure the growth of pork and cattle production, and may lead to expanded meat processing if the U.S. trend towards shifting this processing back to the source of production is adopted in Canada. The current production levels of rapeseed and sunflowers in the region suggest that more vertically integrated oil crushing plants may be imminent as well.

83. Primarily as a result of the federal government's salmonid enhancement program, employment in British Columbia's fish processing sector is expected to increase over the longer term. The program is designed to double the salmon catch over a 30-year period and while the impact on employment in harvesting will be slight, employment in processing is expected to increase over the period as current plant capacity in the sector becomes more fully utilized.

84. Forestry-related industries, which play a leading role in current manufacturing in the West, are expected to maintain a stable share of western manufacturing activity to the mid-1980s. Wood products will continue to be a source of economic strength in British Columbia, although expansion opportunities within the period are seen to be limited. International competition, particularly in the pulp and paper industry, will have a dampening effect on this sector as in other parts of Canada. The western industry, however, has many strengths, including large forest reserves, efficient large-scale plants, and close proximity to the Western U.S. market. While there is sufficient resource for a number of new pulp mills in British Columbia and Alberta, it is doubtful that any major expansion can be justified on economic grounds within the next five years. The demand for plywood is expected to grow at a rate of approximately 3 per cent annually, with an average of one new mill coming on stream in Canada every year. Most of this new capacity would occur in British Columbia. There will, however, be some rationalization of British Columbia mills as outmoded mills in the lower mainland (Vancouver) area are closed and new modern facilities are built closer to their resource base.

85. Looking ahead to further conversion of forest resources, there will probably be a concerted effort by the Prairie provinces to find commercial uses for the little used poplar species. For example, the conversion of poplar to cattle feed, or to alcohol for fuel, and possibly to fermentation products is a potential opportunity.

Source: Unpublished monthly articles by the author, "The Highway Pipeline and Canadian Economic Development".
Notes: (1) The main table entries are based on monthly data for the period January to October, 1977. The figures in parentheses are for the period in 1978. Data for the period January to October, 1977, are based on preliminary data for the period January and October, 1977, and are subject to change when the final data are reported.
(2) An early indication that the demand for plywood is expected to grow at a rate of approximately 3 per cent annually, with an average of one new mill coming on stream in Canada every year.
(3) The regional data reported in this table are based on preliminary data reported by the author in the report "The Highway Pipeline and Canadian Economic Development".

Changes in Average Monthly Manufacturing Employment by Region and by Sector: 1976-1977

The following table sets out the regional dimension of the employment adjustments with which Canada's manufacturing industry is already faced. The table presents, by region and by major manufacturing group, estimated average monthly employment calculated with respect to the period January through October, 1977. In parentheses are the changes in these monthly averages from the corresponding ten-month period in 1976. The averaging procedure tends to smooth out the monthly variation in the estimates and the comparison of corresponding periods in 1976 and 1977 largely eliminates the effect of seasonal variation. The data are derived from the unpublished monthly Labour Force Surveys of Statistics Canada and thus are subject to some statistical sampling error and have been rounded to the nearest thousand. More accurate data on manufacturing employment are published in the annual census of manufacturing, but the latest figures available from this source refer only to 1975. The Labour Force Survey data are subject to greater error but are much more timely. The major trends which they indicate are thought to be significant but the particular numbers quoted should be treated only as estimates subject to statistical sampling error.

The Labour Force Survey data indicate that average monthly employment in Canadian manufacturing declined by about 34,000 or 1.7 per cent between 1976 and 1977. This decline took place almost entirely in Quebec where average employment in manufacturing dropped by 4.3 per cent or almost 30,000 jobs. The Atlantic Provinces experienced a loss of about 4,000 jobs or 4.2 per cent of the region's manufacturing employment. The overall changes in Ontario and the West were not statistically significant.

Quebec suffered major losses in the secteurs mous, down by 15 per cent or almost 20,000 jobs. The other substantial loss was in the paper and allied products sector where employment dropped by 23 per cent or 12,000 jobs. As a group, primary metals, metal fabricating, machinery, and chemical products lost 14,000 jobs or about 12 per cent of their average employment in 1976. The only significant gain in Quebec was in printing and publishing, where employment was up by 6,000 or 20 per cent over 1976. No sector in the Atlantic region lost heavily in absolute terms but there were some significant relative declines, for example, in primary metals. It is perhaps significant that the Atlantic was the only region failing to register a gain in any sector. In Ontario there was a sharp drop in electrical products of about 14,000 jobs or 16 per cent of 1976 employment. This was offset by a gain of 13,000 (10 per cent) in transportation equipment. Textiles were down by 16 per cent or 5,000 jobs. A similar loss was suffered in nonmetallic mineral products but there were significant compensating gains in machinery and wood products. The most important decline in the West was in wood products where average employment dropped by 7 per cent or 5,000 jobs. This was offset by gains in several sectors, the largest of which occurred in metal fabricating where employment went up by 18 per cent or about 4,000. Overall, the West appears to have actually increased its manufacturing employment slightly, the only region to register any net gain in the face of the national decline.

TABLE 9

**AVERAGE MONTHLY EMPLOYMENT IN MANUFACTURING
JAN-OCT. 1977 COMPARED WITH JAN-OCT. 1976 (THOUSANDS)**

	Atlantic	Quebec	Ontario	West	Canada
Food and beverages	37 (0)	68 (+4)	97 (+2)	55 (0)	257 (+6)
Tobacco products	*	5 (-1)	4 (0)	*	9 (-1)
Rubber and plastic products	4 (0)	16 (+2)	37 (+2)	4 (+1)	61 (+5)
Leather	*	13 (-2)	17 (0)	*	30 (-2)
Textiles	2 (0)	28 (-9)	26 (-5)	2 (+1)	58 (-14)
Knitting mills	*	8 (-4)	6 (+1)	*	14 (-3)
Clothing	*	74 (-4)	23 (+1)	10 (-2)	106 (-6)
Wood	7 (-1)	30 (+3)	21 (+4)	63 (-5)	121 (+2)
Furniture and fixtures	*	25 (+3)	27 (-1)	9 (+1)	62 (+2)
Paper and allied	13 (-1)	40 (-12)	48 (+1)	29 (-3)	130 (-15)
Printing and publishing	3 (0)	35 (+6)	59 (+3)	24 (0)	121 (+9)
Primary metals	3 (-1)	37 (-3)	70 (0)	14 (0)	127 (-3)
Metal fabricating	4 (0)	35 (-4)	86 (+1)	26 (+4)	151 (+1)
Machinery	*	16 (-3)	70 (+4)	16 (+1)	102 (+1)
Transportation equipment	8 (0)	38 (-1)	133 (+13)	25 (+1)	203 (+13)
Electric products	3 (0)	33 (+1)	75 (-14)	10 (+2)	120 (-12)
Nonmetallic mineral products	2 (-1)	17 (0)	29 (-5)	13 (0)	61 (-5)
Petroleum and coal	2 (0)	6 (-1)	9 (0)	6 (0)	24 (-1)
Chemical and chemical products	2 (0)	27 (-4)	49 (-3)	9 (0)	87 (-7)
Miscellaneous	*	19 (0)	38 (-5)	7 (+1)	65 (-4)
Total	90 (-4)	570 (-29)	924 (-1)	324 (+2)	1909 (-34)

Source: Unpublished monthly estimates by the Labour Force Survey Branch of Statistics Canada.

Notes: (1) The main table entries are average monthly employment estimates computed with respect to the ten months, January to October, 1977. The numbers in parentheses are the changes in these averages from the same period in 1976. Thus there were an average 106 000 employed in the Canadian clothing industry between January and October 1977. This was a decline of about 6 000 over the same period in 1976.

(2) An * entry indicates that there were fewer than 2 000 employees in the regional sector. The number is not reported.

(3) The regional data do not necessarily sum to the national data because of rounding error and the effect of unreported data (i.e. *) in certain cells.

SELECTED
BRIEFING MATERIAL
ON THE
DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

DREE

The Department of Regional Economic Expansion was created under the Government Organization Act in April 1969, as an instrument to coordinate federal efforts to reduce economic and social disparities between the various regions of Canada. DREE's primary objective is to ensure that development opportunities existing in Canada's slow growth regions are effectively pursued so as to improve employment and general economic conditions.

In 1972, the Department undertook a comprehensive review and analysis of its programs and organization. As a result, several innovations were introduced, including decentralization of the department's activities and decision-making procedures, and the development and signing of General Development Agreements (GDAs) with individual provinces.

Departmental programming is divided into three major areas of activity: General Development Agreements, industrial incentives, and other programs which include the Agricultural and Rural Development Act (ARDA), Special ARDA and the Prairie Farm Rehabilitation Administration (PFRA).

General Development Agreement Mechanism

Since its inception, the GDA approach has become the chief instrument of DREE programming. There are General Development Agreements signed with each province, except Prince Edward Island, where a 15-year comprehensive development agreement has been in effect since 1969.

LE MEER

Le ministère de l'Expansion économique régional (MEER) a été créé en avril 1969 en vertu de la Loi sur l'organisation du gouvernement pour être l'instrument de coordination des efforts du gouvernement fédéral visant à atténuer les inégalités économiques et sociales entre les diverses régions du Canada. L'objectif premier du MEER est de voir à l'exploitation rationnelle des possibilités de développement des régions à faible croissance de façon à y améliorer la situation de l'emploi et de l'économie en général.

En 1972, le ministère a entrepris une révision exhaustive de ses programmes et de son organisation. Plusieurs changements en ont résulté, notamment la décentralisation de l'activité du ministère et des pouvoirs de décisions, et l'élaboration et la signature d'ententes-cadres de développement (E.C.D.) avec chacune des provinces.

Les programmes du ministère s'articulent autour des trois principaux secteurs d'activité suivants: les ententes-cadres de développement, les subventions à l'industrie et les autres programmes qui comprennent notamment la Loi sur l'aménagement rural et le développement agricole (ARDA), spécial ARDA et la Loi sur le rétablissement agricole des Prairies (ARAP).

Le mécanisme des ententes-cadres de développement (E.C.D.)

Depuis son adoption, l'E.C.D. est devenue l'élément central de la programmation du MEER. Une entente-cadre de développement a été conclue avec chacune des provinces à l'exception de l'Île-du-Prince-Édouard où un plan d'ensemble de développement d'une durée de quinze ans est en vigueur depuis 1969.

Each GDA outlines an economic strategy, which is based on analysis of provincial socio-economic circumstances, and sets out guidelines and criteria for the implementation of the strategy through the development and signing of subsidiary agreements, which are designed to define and pursue specific development opportunities.

Another significant aspect of the GDA approach is the on-going process of communication, cooperation and co-ordination which has developed between DREE and other federal government departments. Other federal departments and agencies have been involved in the development and implementation of many subsidiary agreements and have frequently co-signed or co-funded specific initiatives along with DREE and the provinces concerned.

operations.

Regional Development Incentives Program

The Regional Development Incentives Program is an important component of DREE programming and complements the GDA strategies. In terms of expenditures it represents just under one-fifth of the Department's annual budget. Its main objective is to stimulate and preserve productive employment opportunities by encouraging manufacturing and processing investment in the regions of Canada which are designated as requiring special assistance. There are designated regions in each of the ten provinces, as well as the Northern Territories. The legislative base of the program is the Regional Development Incentives Act and certain sections of the Department of Regional Economic Expansion Act, both of which were passed in 1969.

Chaque E.C.D. énonce une stratégie économique qui est fondée sur l'analyse de la conjoncture socio-économique de la province et expose en outre les lignes directrices et les critères qui régiront la mise en oeuvre de cette stratégie par le biais d'ententes auxiliaires qui ont pour objet de délimiter et d'exploiter des possibilités précises de développement.

Le processus continu de communication, de collaboration et de coordination qui a été établi entre le MEER et les autres ministères fédéraux constitue un autre aspect important du mécanisme de l'E.C.D. C'est ainsi que d'autres ministères et organismes fédéraux ont été appelés à participer à l'élaboration et à la mise en oeuvre de nombreuses ententes auxiliaires pour souvent en devenir les cosignataires ou participer à leur financement avec le MEER et la province concernée.

Le programme des subventions au développement régional

Ce programme, qui se veut le complément des E.C.D., est lui aussi un élément important de l'action du MEER. Il compte pour un peu moins du cinquième du budget annuel du ministère et a pour objectif principal de maintenir et d'accroître les possibilités d'emploi productif en stimulant l'investissement au titre de la fabrication et de la transformation dans les régions désignées du Canada qui nécessitent une aide spéciale. Des régions ont été désignées à cette fin dans chacune des dix provinces ainsi que dans les Territoires du Nord. Le programme est régi par la Loi sur les subventions au développement régional et certains articles de la Loi sur le ministère de l'Expansion économique régionale qui ont toutes deux été adoptées en 1969.

The Regional Development Incentives Program is both federally funded and administered. However, all provinces are consulted prior to the designation of regions within their borders. There is also substantial consultation with other federal departments and provincial governments on major incentive projects and on smaller ones in sensitive industries or with resource or environmental concerns.

Other Programs

The Agricultural and Rural Development Act (ARDA) was passed in 1961 to assist rural socio-economic development. In the past, ARDA programs have applied in many parts of Canada. However, these programs have now expired in all provinces except Ontario, where they are due to expire effective March 31, 1979. Typical ARDA undertakings have included: farm consolidation and diversification, alternative land use, soil and water conservation, social adjustment, and the provision of alternative employment opportunities. In some provinces, such activities can be supported within the framework of the GDA/Sub-Agreement mechanism.

The Special ARDA Program is designed to improve the economic circumstances of disadvantaged people of Native ancestry living in rural areas. At present the program operates only in Manitoba, Saskatchewan and British Columbia, as well as in the Yukon and Northwest Territories.

C'est le gouvernement fédéral seul qui assure le financement et la mise en oeuvre du programme des subventions au développement régional. Toutes les provinces sont toutefois consultées avant que soient désignées les régions situées sur leur territoire. Les autres ministères fédéraux et les gouvernements provinciaux sont amplement consultés aussi lorsqu'il s'agit d'un projet important ou d'un projet qui concerne une industrie vulnérable ou encore qui suscite des préoccupations sur les plans des ressources ou de l'écologie.

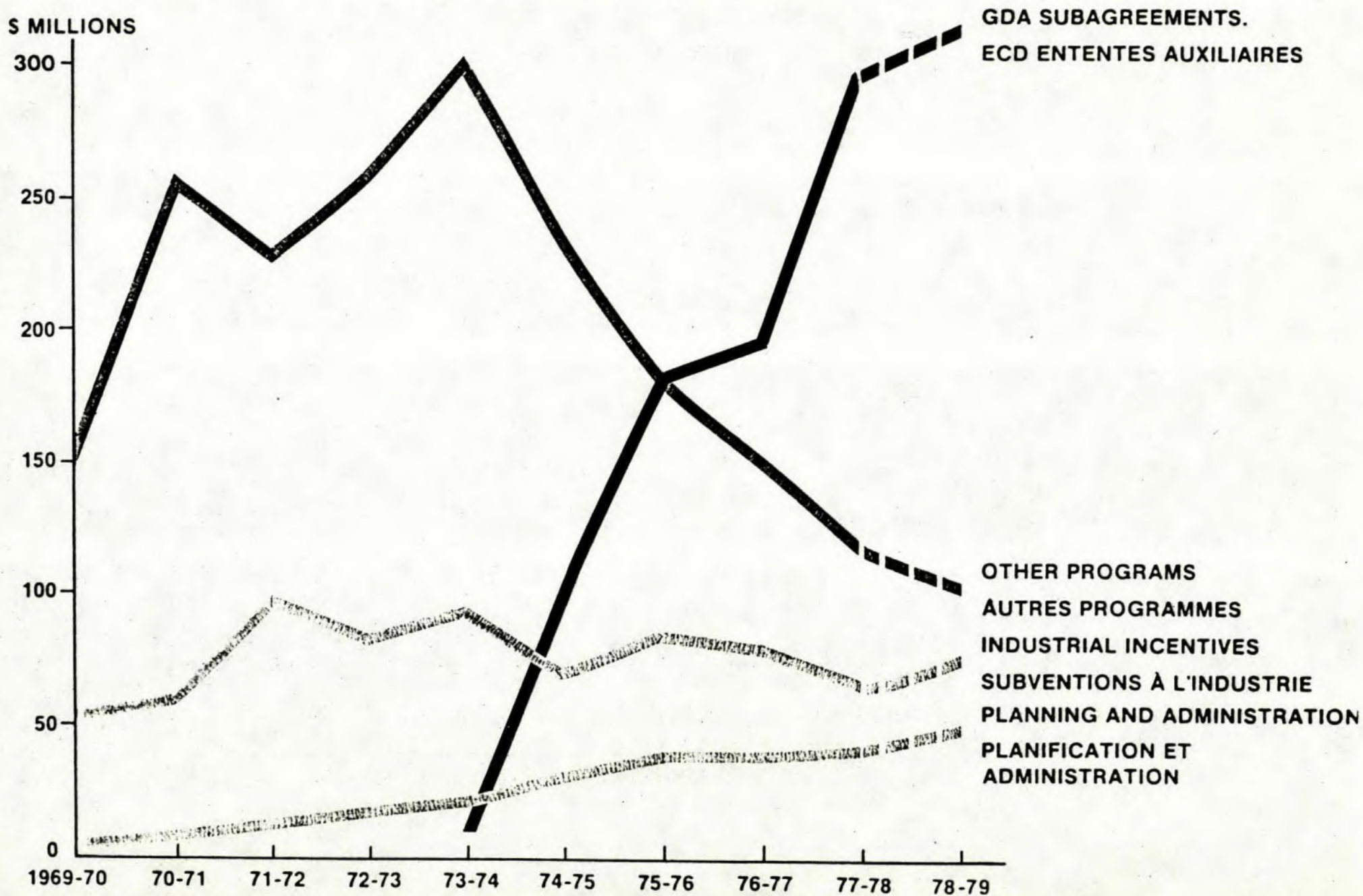
Les autres programmes

La Loi sur l'aménagement rural et le développement agricole (ARDA) a été mise en application en 1961 pour aider à résoudre les problèmes socio-économiques en milieu rural. Dans le passé les programmes sous la Loi ARDA ont permis la mise en oeuvre de projets socio-économiques dans plusieurs régions rurales au Canada. Toutefois, la programmation sous cette Loi est maintenant terminée dans toutes les provinces à l'exception de l'Ontario, où elle doit se terminer le 31 mars, 1979. Les principaux domaines d'activité sous la Loi ARDA sont la réaffectation des sols et des eaux, le relèvement social et la création des emplois substitués. Dans quelques provinces, ces activités peuvent maintenant faire l'objet de support sous le mécanisme des ententes-cadres/ententes auxiliaires de développement.

Le programme spécial ARDA vise à améliorer la situation économique des citoyens défavorisés, en particulier ceux d'origine indienne vivant en milieu rural. A l'heure actuelle, cette activité s'applique aux provinces du Manitoba, de la Saskatchewan et de la Colombie-Britannique ainsi qu'aux Territoires du Yukon et du Nord-Ouest.

DREE EXPENDITURES ACTUAL AND FORECAST BY ACTIVITY

DÉPENSES DU MEER ACTUELLES ET PRÉVUES PAR ACTIVITÉ



MAXIMUM FINANCIAL PROVISIONS OF ACTIVE SUB-AGREEMENTS/
 DEPENSES MAXIMALES PREVUES DES ENTENTES AUXILIAIRES EN VIGUEUR
 AS OF/AU
 01/01/79

<u>NEWFOUNDLAND/ TERRE-NEUVE</u>	<u>TOTAL</u>	<u>FEDERAL SHARE/ QUOTE-PART FEDERALE</u>	<u>PROVINCIAL SHARE/QUOTE- PART PROVIN- CIALE</u>	<u>OTHER/ AUTRES</u>
Forestry	\$ 54 966 600	\$ 47 778 500	\$ 7 188 100	
Gros Morne	22 935 200	20 641 680	2 293 520	
NORDCO	4 910 080	4 419 072	491 008	
St. John's Urban	68 000 000	51 000 000	17 000 000	
Highways 1976-78	101 160 000	88 244 000	12 916 000	
Planning	6 385 000	4 000 000	2 385 000	
Inshore Fisheries	11 761 000	10 584 900	1 176 100	
Labrador Interim	22 097 000	19 662 300	2 434 700	
Mineral	12 458 000	11 212 200	1 245 800	
Tourism	13 264 600	11 938 140	1 326 460	
Agriculture	16 341 300	14 707 170	1 634 130	
Rural	14 580 000	13 122 000	1 458 000	
<u>NOVA SCOTIA/ NOUVELLE-ECOSSE</u>				
Mineral	19 838 000	15 870 400	3 967 600	
Halifax-Dartmouth	109 706 300	79 997 000	29 709 300	
Canso	25 835 400	19 265 000	6 570 400	
Agriculture	48 217 000	29 980 000	18 237 000	
Industrial	16 289 000	13 031 200	3 257 800	
Planning	5 000 000	2 500 000	2 500 000	
Forestry	60 537 500	36 142 000	24 395 500	
Tourism	13 750 000	11 000 000	2 750 000	
SYSCO	19 500 000	15 156 000	4 344 000	
Energy	24 875 000	19 000 000	5 875 000	
<u>NEW BRUNSWICK/ NOUVEAU-BRUNSWICK</u>				
Forestry	70 629 000	56 023 200	14 605 800	
Industrial	30 227 750	24 182 200	6 045 550	
Kent Region	7 751 000	6 200 800	1 550 200	
Saint John & Moncton	51 200 000	35 840 000	15 360 000	
Planning	4 875 000	2 437 500	2 437 500	
Tourism	14 743 000	11 794 400	2 948 600	
Minerals & Fuels	11 313 125	9 050 500	2 262 625	
Highways 1977-80	56 000 000	42 000 000	14 000 000	
Northeast	95 500 000	67 175 000	28 325 000	
Agricultural #2	34 622 500	27 698 000	6 924 500	
<u>QUEBEC</u>				
Axes routiers	448 775 000	205 505 000	243 270 000	
Forêts	138 333 000	83 000 000	55 333 000	
Infrastructures ind.	137 670 000	82 602 000	55 068 000	
Agriculture	103 266 000	61 960 000	41 306 000	
Minéral	28 600 000	17 160 000	11 440 000	
St-Félicien	298 000 000	30 000 000	20 000 000	\$248 000 000
PICA	13 292 000	7 975 200	5 316 800	
Assainissement	200 000 000	120 000 000	80 000 000	
Tourisme	76 000 000	45 600 000	30 400 000	
Equipements publics	34 876 000	23 261 000	11 615 000	
<u>ONTARIO</u>				
Northwestern	50 888 650	25 444 325	25 444 325	
Northeastern	28 996 650	14 498 325	14 498 325	
Single-Industry	19 798 400	10 205 000	9 593 400	
Community & Rural	9 456 650	4 728 325	4 728 325	
Forest	82 236 500	41 118 250	41 118 250	
<u>MANITOBA</u>				
Mineral	8 500 000	4 250 000	4 250 000	
Northlands	138 749 000	96 009 000	42 740 000	
Industrial	44 000 000	26 400 000	17 600 000	
<u>SASKATCHEWAN</u>				
Steel	182 800 000	35 000 000	10 000 000	137 800 000
Planning	2 600 000	1 300 000	1 300 000	
Qu'Appelle	33 700 000	17 960 000	15 740 000	
Agribition	1 700 000	850 000	850 000	
Interim Mineral	2 469 500	1 234 750	1 234 750	
Northlands	127 000 000	87 000 000	40 000 000	
<u>ALBERTA</u>				
Nutritive Processing	17 000 000	8 500 000	8 500 000	
1976-79 Transpo	30 000 000	15 000 000	15 000 000	
North	55 000 000	32 500 000	22 500 000	
<u>BRITISH COLUMBIA COLOMBIE-BRITANNIQUE</u>				
1976-79 Highways	30 000 000	15 000 000	15 000 000	
Coal - 1977/78	10 000 000	5 000 000	5 000 000	
Industrial	70 000 000	35 000 000	35 000 000	
Agricultural	86 750 000	30 000 000	30 000 000	26 750 000
Travel	50 000 000	25 000 000	25 000 000	
TOTAL ACTIVE/ en vigueur:	\$3 668 225 605	\$2 053 814 337	\$1 201 861 268	\$412 550 000

SUMMARY NOTES

OF

INCENTIVES TO INDUSTRY IN CANADA AND AVAILABLE

TO BOTH CANADIAN AND NON-CANADIAN INVESTORS

(Source: Foreign Investment Review - Autumn 1978)

Incentives to industry

The following is a regularly updated list of the major incentives to industry offered by the federal and provincial governments and available to both Canadian and non-Canadian investors. To qualify, companies must be incorporated in Canada.

FEDERAL GOVERNMENT INCENTIVES

Note: a number of programs which are cost-shared and jointly administered by the federal and provincial governments are listed only under **Provincial Government Incentives**.

Department of Industry, Trade and Commerce

Enterprise Development Program (EDP)

The program assists eligible manufacturing and processing firms to become more viable and internationally competitive through grants and loans. The grants are to help firms to develop proposals for project assistance, study market feasibility or productivity improvement, procure industrial design services, and develop or introduce new technology. Loans or loan guarantees assist restructuring or rationalization. Further grants or loans are also available to help firms to meet special problems or to further specific government objectives. **Contact:** Enterprise Development Board, Department of Industry, Trade and Commerce, 235 Queen St., Ottawa, Ontario, Canada K1A 0H5.

Small Businesses Loans Act

Guarantees loans up to \$75,000 from approved lenders to proposed or existing businesses whose actual (or estimated) gross revenue is up to \$1 million. **Contact:** Small Business Loans Administration, Department of Industry, Trade and Commerce, 235 Queen St., Ottawa, Ontario, Canada K1A 0H5.

Machinery Program

This program provides for remission of import duty on types of machinery not manufactured in Canada, when the importation of such machinery is vital to an enterprise. **Contact:** Machinery and Equipment Advisory Board, Department of Industry, Trade and Commerce, 235 Queen St., Ottawa, Ontario, Canada K1A 0H5.

Agricultural and Food Products Market Development Program (AGMAP)

Financial assistance to develop domestic and export markets for agriculture and food products. **Contact:** Program Unit, Agriculture Fisheries and Food Products Division, Department of Industry, Trade and Commerce, 235 Queen St., Ottawa, Ontario, Canada K1A 0H5.

Other Programs

Financial assistance programs are also available for shipbuilding, defence production, fashion design, grains and oilseeds marketing and for export market development. **Contact:** Department of Industry, Trade and Commerce, 235 Queen St., Ottawa, Ontario, Canada K1A 0H5.

National Research Council

Industrial Research Assistance Program (IRAP)

Shares cost of selected research projects. **Contact:** National Research Council, Montreal Road, Ottawa, Ontario, Canada K1A 0R6.

Pilot Industry/Laboratory Program (PILP)

Provides shared-cost research between NRC laboratories and industrial firms. **Contact:** National Research Council, Montreal Road, Ottawa, Ontario, Canada K1A 0R6.

Department of Regional Economic Expansion (DREE)

Regional Development Incentives Program (RDIP)

The program provides grants and loan guarantees to foreign and Canadian firms undertaking ventures in designated regions in all provinces under the Regional Development Incentives Act. Incentives are provided principally to manufacturing or processing operations and loan guarantees are also available to certain new service facilities. The Montreal Special Area designated under the DREE Act is eligible for grants in certain manufacturing or processing sectors. **Contact:** Industrial Incentives Branch, Department of Regional Economic Expansion, 200 Promenade du Portage Hull, Québec, Canada K1A 0M4.

Federal Business Development Bank (FBDB)

Provides financial assistance to business, particularly small business, in the form of loans, loan guarantees, equity financing or leasing. Management services are also available to small businesses. **Contact:** Federal Business Development Bank, 901 Victoria Square, Montreal, Quebec, Canada H3C 3C3.

PROVINCIAL GOVERNMENTS INCENTIVES

ALBERTA

Alberta Opportunity Company

Provides financing for Alberta manufacturing and service businesses through direct loans or guarantees of loans for fixed assets or working capital when funding is not available from conventional lending institutions. **Contact:** *Alberta Opportunity Company, Box 1860, Ponoka, Alberta, Canada T0C 2H0.*

Canada-Alberta Subsidiary Agreement on Nutritive Processing Assistance

The maximum grant under this program is 35 per cent of the total capital required to build or expand a facility. The grant is restricted to nutritive processing operations in which raw or semi-processed products are physically or chemically altered, processed, or refined or made more marketable as nutritional products for humans, animals, or plants. The grants are available for operations anywhere in Alberta except Edmonton and Calgary. **Contact:** *Executive Director, DREE Program, Agriculture Building, 11th floor, 9718 — 107th St., Edmonton, Alberta, Canada T5K 2C8.*

BRITISH-COLUMBIA

British Columbia Development Corporation

The corporation provides financing in the form of term loans, loan guarantees, performance bonds, deficiency guarantees, leasing of buildings and machinery, and in special cases, equity. While there is no limit on the amount of funds the corporation may provide, in large scale projects it prefers to provide assistance in conjunction with other financial institutions. BCDC provides serviced land on a sale or lease basis to secondary manufacturing and related service industries. Land is available through the land development division. BCDC acts as project manager of large capital projects in British Columbia. **Contact:** *British Columbia Development Corporation, 272 Granville Square, 200 Granville St., Vancouver, British Columbia, Canada V6C 1S4.*

Ministry of Economic Development

The business development program provides assistance in marketing British Columbia-manufactured products outside the province by providing financial support to businesses to participate in trade shows and trade missions outside

Canada. It also provides a market development assistance program, a technical assistance program, a small businesses assistance program and a business information service on the availability and source of various forms of financial and other assistance to business. The new business service provides counselling and information about government regulations. **Contact:** *Business and Industrial Development Branch, Ministry of Economic Development, Box 10111, 700 West Georgia St., Vancouver, British Columbia, Canada V7Y 1C6.*

MANITOBA

Manitoba Research Council

Industrial Development Assistance provides shared costs and technical assistance for research and development of new or improved products and processes. The Council's Canadian Food Products Development Centre and Canadian Health Industry Development Centre provide advice, in-plant assistance and laboratory prototype work for food and feed industries and for products and devices in health care respectively. **Contact:** *Manitoba Research Council, 155 Carlton St., 5th floor, Winnipeg, Manitoba, Canada R3C 3H8.*

Manitoba Department of Industry and Commerce

The Feasibility Studies Incentive Program assists manufacturing and processing industries with shared-cost feasibility studies on establishing or expanding manufacturing. The DREE Application Incentives Program provides shared-cost assistance to employ outside consultants in the preparation of applications to the federal government's Department of Regional Economic Expansion programs for the establishment or expansion of manufacturing facilities. The Productivity Improvement Program provides shared-cost assistance to identify problems and obstacles to growth. The Manpower Development Assistance Program provides cost-sharing of manpower development programs. **Contact:** *Department of Industry and Commerce, 155 Carlton St., Winnipeg, Manitoba, Canada R3C 3H8.*

NEW-BRUNSWICK

New Brunswick Industrial Development Board

Provides financial assistance to manufacturers or processors, normally in the form of a loan guarantee or direct loan. Administers a joint federal-provincial interest-free forgivable loan

program oriented to small businesses. **Contact:** *Department of Commerce and Development, P.O. Box 6000, Centennial Building, Fredericton, New Brunswick, Canada E3B 5H1.*

New Brunswick Provincial Holdings Limited

Will take an equity position in manufacturing companies locating in New Brunswick. **Contact:** *N.B. Provincial Holdings Ltd., P.O. Box 6000, Centennial Building, Fredericton, New Brunswick, Canada E3B 5H1.*

Research and Productivity Council

Provides technical supporter services for industry in New Brunswick, including engineering and problem solving, industrial research and development, and management consulting, on a cost-recovery basis. **Contact:** *N.B. Research and Productivity Council, College Hill Road, Fredericton, New Brunswick, Canada E3B 5C8.*

NEWFOUNDLAND

Newfoundland and Labrador Development Corporation

This joint federal-provincial corporation provides equity and loan financing up to \$2.5 million for establishing or expanding small and medium-sized businesses. **Contact:** *Newfoundland and Labrador Development Corporation, P.O. Box 9548, 44 Torbay Road, St. John's, Newfoundland, Canada A1A 2Y4.*

NOVA SCOTIA

Industrial Estates Ltd.

Industrial Estates Ltd. is a crown corporation for the development of secondary industry in Nova Scotia. Long-term loans on 20-year first mortgages on 100% of the cost of new land and buildings of secondary manufacturers and up to 60% financing of new machinery with 10 years to repay. Minimum loan financing available under this program is \$150,000. **Contact:** *Industrial Estates Ltd, 5151 George St., 7th floor, Halifax, Nova Scotia, Canada B3J 1M5. Also*

Industrial Development Manager, Industrial Estates Limited, Niederkasseler Kirchweg 95, 4000 Düsseldorf 11, Germany.

Nova Scotia Department of Development

The Nova Scotia Department of Development is responsible for the development of businesses and industries. It offers loans to primary industries, tourism, and fishing through

the Nova Scotia Resources Development Board. The department also has programs of assistance specific to marketing, management development, product design and development and opportunity identification; as well as a rural industry program offering capital grants to businesses wishing to expand, establish or modernize outside Halifax-Dartmouth. An industrial malls program encourages new small businesses and industries with rental and other assistance in the first year of their existence. There are other programs offered by departments of agriculture, lands and forests, tourism, labour, fisheries and education which may be relevant to businesses and industries.

Contact: Nova Scotia Department of Development 5151 George Street, Halifax, Nova Scotia B3J 1M5.

ONTARIO

Ontario Development Corporation

Programs include: industrial mortgages and leasebacks, export support loans, venture capital loans, pollution control equipment loans, loans to small businesses, tourist industry loans, and incentive loans to encourage industries to locate or expand in slow-growth areas of Ontario. **Contact:** Ontario Development Corporation, Mowat Block, 3rd floor, 900 Bay St., Toronto, Ontario, Canada M7A 2E7.

Ontario Industrial Training Program

Assistance for training programs to companies locating in areas where such programs will help improve employment opportunities. **Contact:** Ministry of Colleges and Universities, Industrial Training Branch, Mowat Block, 900 Bay St., Toronto, Ontario, Canada M7A 2E7.

Retail sales tax exemption for production machinery and equipment

A retail sales tax exemption is granted to a manufacturer or producer who purchases machinery and equipment which alters the goods in process as well as a wide variety of mining, logging, waste removal and pollution control equipment and other types of machinery. **Contact:** Ministry of Revenue, Retail Sales Tax Branch, Queen's Park, Toronto, Ontario, Canada M7A 1X9.

PRINCE EDWARD ISLAND

Industrial Enterprises Incorporated

Provides assistance for capital expenditures in the form of first mortgage loans on real estate and/or equipment. Also provides serviced lands and facilities

in industrial parks at attractive rates and flexible terms. **Contact:** Industrial Enterprises Incorporated, West Royalty Industrial Park, Charlottetown, Prince Edward Island, Canada C1E 1B0.

P.E.I. Department of Industry and Commerce

The Industrial Assistance Program provides assistance in the form of forgivable performance loans to manufacturing and processing businesses. Where the maximum capital expenditure is \$25,000, eligible businesses may receive a maximum forgivable performance loan of \$12,500 or 25% of the total capital cost and up to \$2,000 for each new job created. The Service Sector Assistance Program provides assistance to primary resource industries and/or secondary manufacturers and processors to purchase new, used, or reconditioned equipment and machinery. It also assists in the financing of construction or renovation of production facilities. For a maximum capital expenditure of \$60,000, the amount of forgivable performance loan would be 25% of the approved capital costs to a maximum of \$30,000 and up to \$2,000 for each new full-time job created. Financing for these programs is on a joint federal-provincial basis. **Contact:** Department of Industry and Commerce, P.O. Box 2000, 180 Kent St., Charlottetown, Prince Edward Island, Canada C1A 7N8.

QUEBEC

Quebec Industrial Development Corporation (QIDC)

QIDC offers financial assistance to manufacturing projects in compliance with the industrial policies of the Quebec Ministry of Industry and Commerce. Long-term financing of capital costs, reduced rates of interest and shared equity in manufacturing projects, are available. These forms of financial assistance are offered to most sectors of industry in Quebec by QIDC together with direct government grants offered by DREE's specially-designed zone in Montreal. **Contact:** Quebec Industrial Development Corporation, 1126, Chemin Saint-Louis, Room 700, Sillery, Quebec, Canada G1S 1E5.

Quebec Ministry of Industry and Commerce

An industrial financing fund to encourage the development of small plants through fiscal abatement at the accrued rate of 25% annually and a tax rebate to encourage regional industrial development for the general industrial sector is available in addition to QIDC development assistance programs. (See listing above.) The costs of exporting Quebec-manufactured

products are supported by interim financing. The ministry also contributes financially to the organization of trade missions, feasibility studies and market surveys, promotes manufacturing under foreign licenses, conducts regional labour surveys, and studies problems related to industrial productivity, at the request of potential investors. The ministry maintains permanent economic delegations in New York, Boston, Chicago, Dallas, Los Angeles, Toronto, Brussels, Dusseldorf, London, Milan, Paris, and Tokyo. **Contact:** Quebec Ministry of Industry and Commerce, Industrial Promotion Directorate, Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.

SOQUEM, SOQUIM, SOQUIP, SOQUIA, REXFOR

These Quebec government-owned societies are involved in financial participation in joint ventures with Canadian or foreign private sector investors in the mining sector (SOQUEM), oil and gas (SOQUIP), agriculture and food industries (SOQUIA) and forestry (REXFOR). **Contact:** Quebec Ministry of Industry and Commerce, Industrial Promotion Directorate, Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.

SASKATCHEWAN

Saskatchewan Economic Development Corporation (SEDCO)

Provides mortgages up to 20 years, loan guarantees, venture capital and industrial land for lease or sale. **Contact:** Saskatchewan Economic Development Corporation, 1106 Winnipeg St., Regina, Saskatchewan, Canada S4R 6N9.

Department of Industry and Commerce

The department of Industry and Commerce offers a multitude of development programs to assist manufacturers and processors located in the province. These include: the Aid to Trade Program for manufacturers who wish to extend their market areas through promotion; the Product Development Program to help develop new products and special processes, to improve products and to finance tests; the Management Development Program; the Small Business Interest Abatement Program and the Small Industry Development Program. These programs provide assistance up to 50 per cent of approved costs, except for the latter who provide forgivable loans, according to region and population, and abatement grants. **Contact:** Saskatchewan Department of Industry and Commerce, Power Building, 7th floor, Regina Saskatchewan S4P 3V7.