

Manitoba

Momentum to pick up as growth broadens across sectors

The manufacturing data to date for Manitoba indicate a wide divergence among the various sub-sectors in 2015 with areas of declining activity keeping the overall measure disappointingly weak. Areas of pronounced weakness include machinery and fabricated metals that both show sizeable double-digits declines in the first nine months of 2015. This weakness likely reflects a spillover effect from the downturn in the energy sector in Alberta and Saskatchewan. In contrast, sub-sectors such as transportation equipment and furniture show a sharp pick-up in growth and are on pace to record double-digit increases in 2015. This strength indicates that some areas of manufacturing in the province are responding to the strengthening US economy and weak Canadian dollar (Manitoba's non-energy exports increased by 5.8% in the first 10 months of 2015 on a nominal basis). Unfortunately, the gains in these areas come short of fully offsetting the weakness elsewhere, and thus, we expect total manufacturing output to decline by 2% overall in 2015. This would represent a further downward revision from the 2% increase that we had assumed in September. Looking ahead, our expectation is that the drag from the energy sector will ease and that the positive factors will eventually dominate, thereby returning overall manufacturing to positive growth, although we have downwardly revised the increase in 2016 to 3% from a 4% gain previously.

Growth profile revised lower but ascending trend still expected

The downward revision to growth in the manufacturing sector is a key factor prompting us to lower our real GDP growth forecast for the province to 1.8% and 2.4% in 2015 and 2016, respectively, from the previously projected rates of 2.3% and 2.7%. Nonetheless, we expect the faster ramp-up of growth only to be delayed until 2017 when we project real GDP growth of 2.6%.

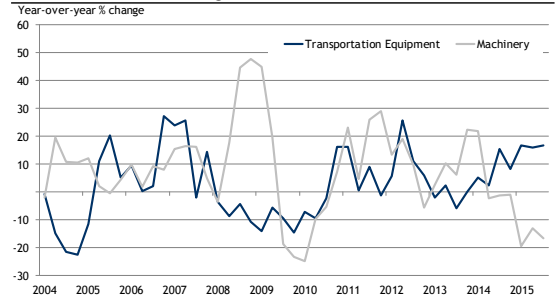
Agriculture to support growth

In contrast to dry weather conditions weighing on agricultural production in Saskatchewan and Alberta in 2015, moisture levels in Manitoba proved sufficient for an increase in the grain and oilseed harvest in 2015. According to Statistics Canada figures, we should see the province's two largest crops rise in aggregate by 9% in 2015. This would follow a 23% decline in 2014 that reflected the sector coming off a bumper crop in 2013 (when production surged by 36%). Tempering the boost that the rise in production in 2015 will have on farm income, however, will be weaker grain and oilseed prices globally that resulted from strong harvests outside of Canada.

The pace of construction spending to slow

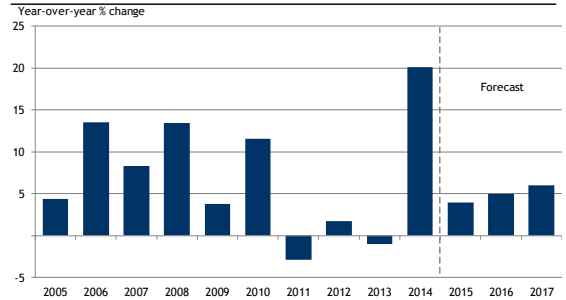
Elements are in place for construction activity to continue to grow in Manitoba during our forecast horizon. We expect the pace to slow to 4% in 2015, however, due the winding down of some large capital expenditure projects, such as a large office and hotel complex in Winnipeg and the expansion of the RBC Convention Centre Winnipeg, which contributed to a very strong 20% increase in 2014. Still, with spending on two Manitoba Hydro projects (Bipole III transmission line and Keeyask Infrastructure and Generating Station), we believe that construction expenditures in the province will be well supported and have good prospects to move up further in 2016 and 2017. Our outlook for capital spending is consistent with the capex survey released by Statistics Canada in early 2015 that indicated that businesses intended to boost capital investment by an above-national average of 5% in 2015 following a surge of 25% in 2014.

Manitoba : Manufacturing sales



Source: Statistics Canada, RBC Economics Research

Manitoba : Construction real GDP



Source: Statistics Canada, RBC Economics Research

Manitoba forecast at a glance

% change unless otherwise indicated	2012	2013	2014	2015F	2016F	2017F
Real GDP	3.0	2.4	2.3	1.8	2.4	2.6
Nominal GDP	6.4	3.5	3.5	3.2	4.0	4.8
Employment	1.6	0.7	0.1	1.6	1.1	1.1
Unemployment rate (%)	5.3	5.4	5.4	5.6	5.3	4.9
Retail sales	1.3	3.9	4.3	1.5	4.4	4.1
Housing starts (units)	7,242	7,465	6,220	5,800	6,300	6,000
Consumer price index	1.6	2.3	1.8	1.2	2.2	2.0

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