



Province of Manitoba
Steady. Balanced.
Building Manitoba's Future

Mid-Year Report

CONTENTS

Economic Performance and Outlook

INTRODUCTION

Manitoba's economy is forecast to contract by 0.2% in 2009, the first annual decline in real GDP since 1991 but the best performance among provinces and well ahead of the projected national decline of 2.4%. This year would be the fourth consecutive year Manitoba's economy has bettered the national average.

In 2010, the economy is projected to grow by 2.3%, in line with Canada's increase but below the recent five-year average annual growth of 2.7%.

Based on economic information released to date, virtually all major economic indicators show the province's economy is outperforming Canada in 2009.

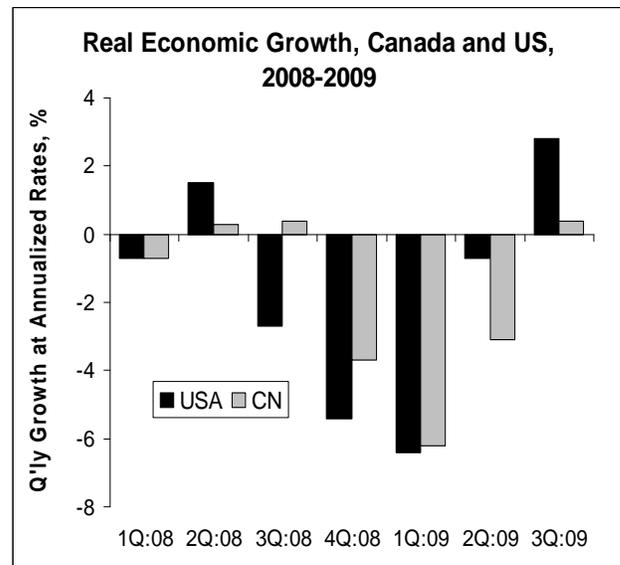
Manitoba's economy is highly diversified with a relatively large service sector and a diversified export base. These and other factors have given Manitoba the most stable provincial economic growth over the past decade.

INTERNATIONAL AND NATIONAL ECONOMIC ENVIRONMENT

The global economy has experienced the steepest drop in activity since the end of the Second World War. Advanced countries are particularly hard hit, with the economies of the United States, the Euro area and Japan all expected to shrink by over 2.5% in 2009.

The worsening economic environment in 2008 and 2009 prompted many countries to adopt expansionary fiscal and monetary policies to stimulate demand. In Canada, all provincial governments and the federal government have provided varying degrees of fiscal stimulus.

The Bank of Canada has responded to the financial and economic turmoil by introducing several measures to support the financial sector, and boost liquidity, bringing down the policy interest rate sharply. The Bank’s current overnight target rate of 0.25% is the lowest since the Bank was founded in 1934. The Bank projects that the target interest rate will remain low for a considerable period, with both core and overall consumer inflation expected to remain at or below 2% until the end of 2011. This is in line with expectations for a more modest Canadian economic recovery than previous post-recession periods.

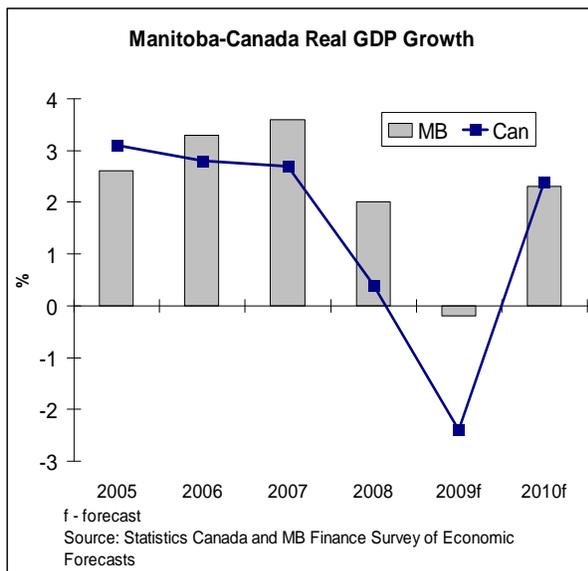


The private sector consensus calls for Canada’s GDP to decline 2.4% in 2009, the worst performance since 1982. A number of factors contributed to Canada’s economic decline, including a weak U.S. market caused by declining consumer spending and business investment, constrained credit markets, the rapid increase in the value of the Canadian currency relative to the U.S. dollar and retrenchment in the national housing market.

While the Canadian economy now appears to be entering a period of economic recovery, growth in later 2009 and 2010 is forecast to be moderate. On average, forecasters anticipate real GDP will grow by 2.4% in 2010 with stronger growth of 3.4% expected in 2011. Canada’s employment growth next year is expected to be anemic with the unemployment rate rising to 8.9%, However, forecasters predict labour markets will strengthen in 2011 as employment increases by 1.8% and the unemployment rate declines to 8.3%.

MANITOBA ECONOMIC PERFORMANCE

Manitoba's economy is projected to contract by 0.2% in 2009, based on Manitoba Finance's survey of economic forecasters. While overall output will decline, the fall in GDP is expected to be the smallest among all provinces this year and well below the projected national decrease of 2.4%.



Nominal GDP is also forecast to decline. The survey of economic forecasters predicts a 1.6% decrease, the largest fall since at least 1982 but still second-best among provinces this year.

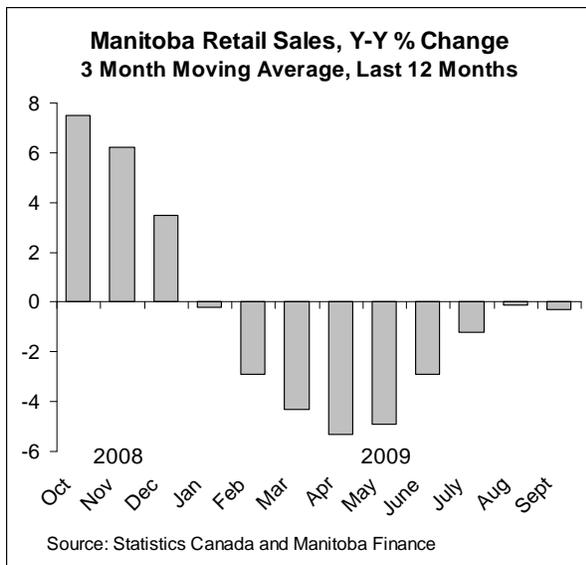
The weakening external environment has tempered Manitoba's labour market expansion this year, with year-over-year employment growth of 0.1%. This modest increase is among the strongest in Canada and better than the national decline of 1.6%. While Canada has shed approximately 400,000 jobs over the past year, Manitoba's employment is largely unchanged.

Continuing growth in Manitoba's labour force, combined with only a modest increase in employment, has boosted the province's average 2009 unemployment rate to 5.1%, above the 30-year low of 4.2% in 2008. The provincial unemployment rate remains second-lowest in Canada. The national average rate in 2009 is 8.2%.

The slower growth in employment is reflected in weaker labour income growth. Total labour income in Manitoba has grown 1.9% through the first three quarters of the year compared to the same period in 2008. This is the smallest increase in over 15 years, but better than the national increase of just 0.1%.

Like other Canadians, Manitoba consumers limited spending in later 2008 and the first half of 2009. With consumer confidence reviving, Manitoba retail sales have strengthened over the past several months. Overall retail sales are down 2.4% through the first three quarters of the year, on track for the first annual decline in retail spending since 1991. Nationally, retail sales have declined by 4.8%.

New motor vehicle sales have declined by 9.5% through the first ten months of the year, third-best among provinces and better than the national decline of 13.7%. Generally, like retail sales, year-over-year declines in monthly new car sales have become progressively smaller since April, 2009.

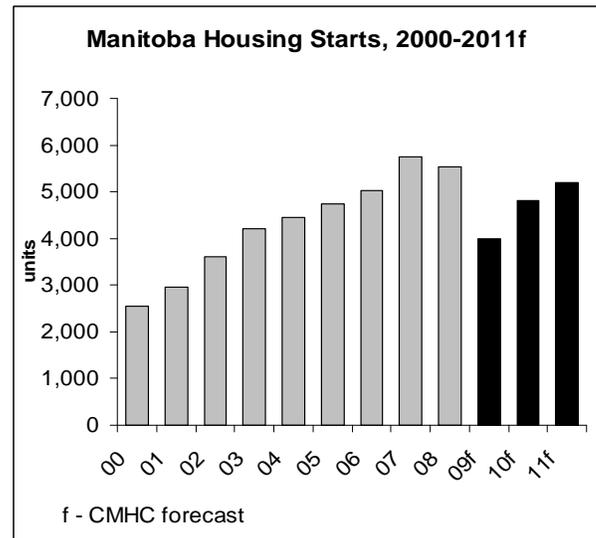


The strength of Manitoba’s consumer expenditure outlook relates to healthy personal finances. Manitobans have relatively low personal debt loads; the ratio of personal debt to personal disposable income in the province is among the lowest in Canada. Likewise, Manitoba’s mortgage arrears rate (the percentage of mortgages in arrears of 90 days or more) in the first nine months of 2009 is only 0.24%, tied for the lowest in Canada among provinces and well below the national rate of 0.4%.

Though personal bankruptcies have increased in all provinces this year, Manitoba’s rate of personal bankruptcies is below the national average; business bankruptcies are down by over one-third so far this year and may reach a 30-year low in 2009.

After edging down last year, Manitoba’s housing starts through the first nine months of 2009 declined by 24.1%, the steepest decline since 1995. Single-family unit starts have declined by 20.6% while multiple unit starts have fallen by 31.5%.

Canada Mortgage and Housing Corporation (CMHC) estimates that Manitoba housing starts will recover in 2010 and 2011, climbing by 30% over the next two years. CMHC attributes much of this housing market strength to continuing high levels of immigration.

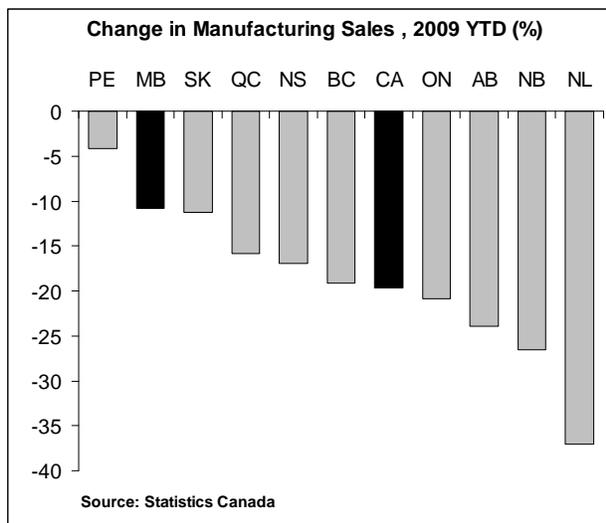


Manitoba home prices are expected to remain firm. CMHC forecasts Manitoba’s average residential resale price will grow 5.9% in 2009 and a further 3.0% in 2010. With Manitoba’s increasing population and relatively robust economic performance, growth in Manitoba’s average residential price has exceeded the national average annual growth in each of the last six years. However, when compared to average incomes, Manitoba’s home ownership costs remain among the best in Canada.

The generally weaker housing starts in Manitoba this year are reflected in the value of building permits issued; permits declined 10.1% through the first ten months of the year relative to the same period in 2008. The value of residential permits has declined by 22.0% while commercial permits have slipped 6.3%. Industrial and institutional/government permits have increased.

Manufacturing is Manitoba’s largest economic sector, accounting for about 12% of GDP. Manufacturers throughout Canada have been challenged over the past several years by a rising and often rapidly changing exchange rate, a shrinking U.S. market due to a protracted recession, and significant pressures from an increasingly competitive global marketplace.

Manitoba manufacturers have been extremely successful meeting these challenges over the past several years. Manitoba manufacturing sales have outpaced national sales growth every year since 2001, rising by an average of 5.3% per year over this period.

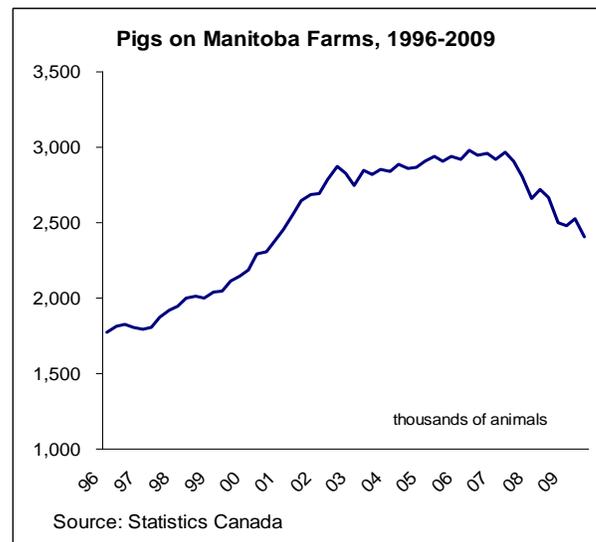


With the onset of the international recession, Manitoba’s manufacturing shipments slipped. Manufacturing sales so far in 2009 have declined 10.8% while foreign exports by Manitoba’s manufacturing industries have declined by 15%. The decline in manufacturing sales is the province’s largest since before 1992, The largest declines in manufacturing sales have been in primary metals (largely reflecting lower world prices for smelted nickel and copper) and wood products, principally windows, fixtures and other

products affected by the troubled U.S. and Canada housing construction industries.

Manitoba’s agriculture producers continue to face a number of challenges. These include generally weaker prices for both crops and livestock commodities and a rapid increase in the value of the Canadian dollar throughout 2009. Nevertheless, year-to-date farm cash receipts are unchanged relative to 2008, while national farm cash receipts have declined by 4.2%.

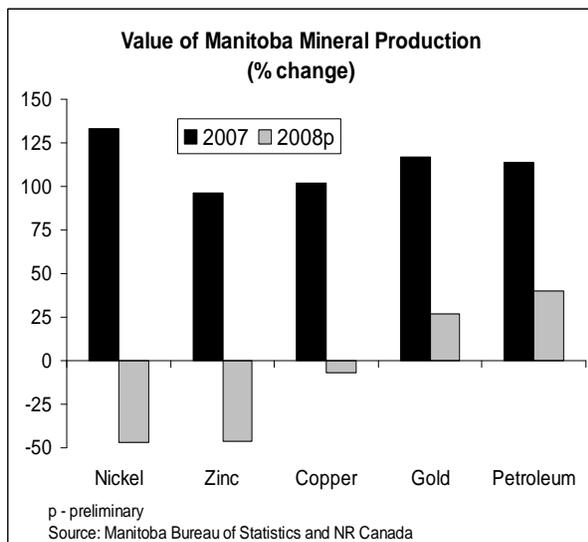
Manitoba’s 2009 crop was down from the strong crop production in 2008, but will likely be near the average crops yields produced over the past few years. Farm cash receipts from crop production increased slightly through the first three quarters of 2009, with strength in oilseeds more than offsetting lower receipts for wheat.



Livestock producers also saw a modest increase in cash receipts through the first three quarters of the year after three consecutive years of declines. Livestock producers are facing the additional challenge of Country of Origin Labeling (COOL) requirements in the United States. Hog producers were further affected by the

H1N1 crisis which reduced demand for pigs and pork. Government programs have been implemented to reduce hog supply and support producer prices.

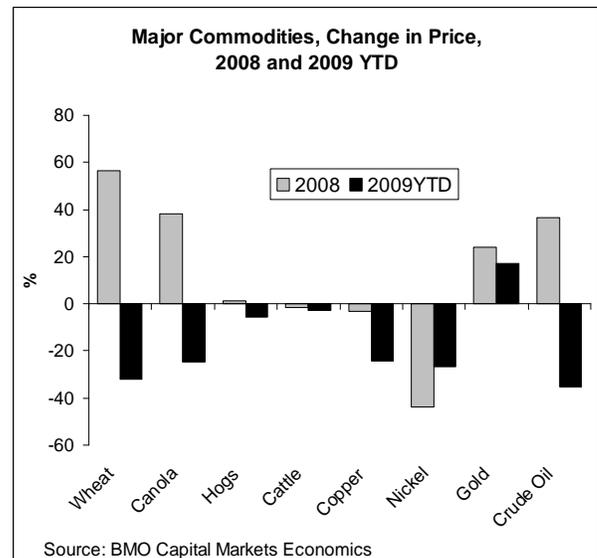
Manitoba’s mining sector has been affected by significant price movements over the past few years. While prices for many Manitoba mineral producers – principally nickel, copper, zinc and oil – benefited from strong gains as world economic output soared in 2007 and earlier 2008, prices for many of these commodities began to collapse later in 2008.



So far in 2009, the volumes of nickel and copper production are down slightly while zinc production is down by 26% due to the closure of the Chisel North Mine. The volume of gold production is up 2.5%; gold has benefitted from continued significant increases in value, with prices increasing to new record levels of over US\$1,200/ounce.

Over the medium term, Manitoba mineral production is expected to increase substantially with the development of the Lalor Lake gold/zinc mine, expected to be the largest of its kind in Canada. Test

drilling has identified approximately three million ounces of gold along with substantial amounts of zinc. HudBay Minerals plans to spend \$500 million on the project over the next few years. Gold production should also increase significantly with increased production scheduled from the San Gold mine and the reopening of the New Britannia gold mine in Snow Lake.

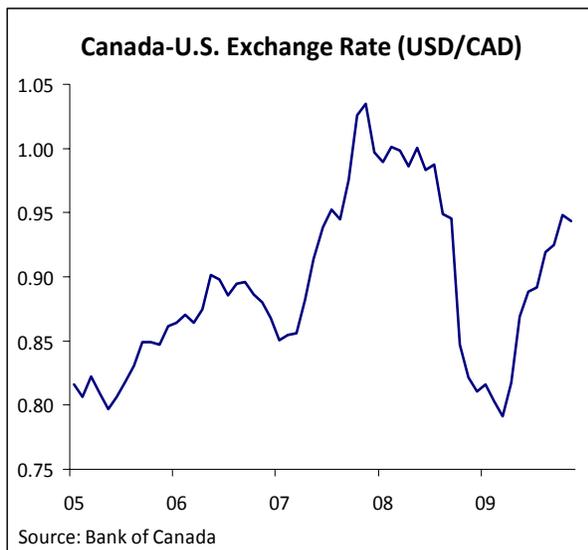


Manitoba’s foreign exports have declined in 2009. Total merchandise exports are down 17.6% through October with exports to the U.S. down 19.0% and non-U.S. exports down by 14.6%.

While exports to China have increased this year, exports to other major markets, including Mexico, Japan, Hong Kong and the European Union, have declined. Canada’s foreign exports have fallen by 28.7% over the same period.

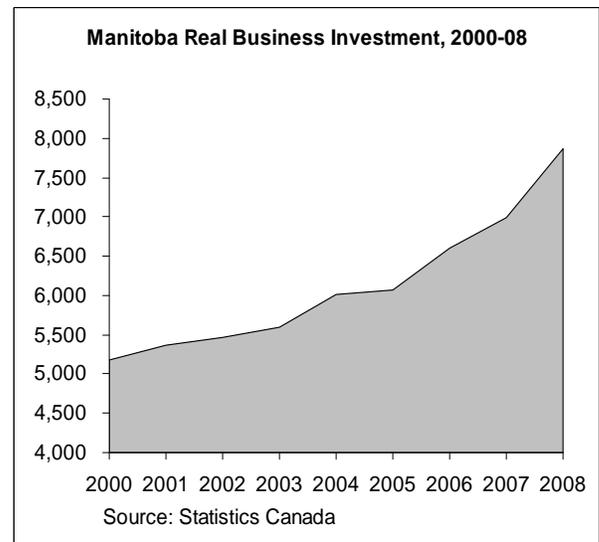
Manitoba is less dependent on the U.S. market than Canada overall. About 68% of Manitoba’s foreign exports are destined for the U.S. market compared to 75% nationally.

Among sectors, the value of manufacturing and agriculture exports through the first three quarters of 2009 are down 15% and 14% respectively. These two sectors account for almost 90% of Manitoba foreign exports this year. Among other export categories, oil exports are down significantly over the same period, as is the value of electric power exports. Mining and quarrying exports have increased 14%, likely reflecting stronger gold prices.



Manitoba is also unique among provinces with exports from the province split almost evenly between foreign markets and other Canadian provinces. Typically, Canadian provinces ship less than 40% of their exports to other provinces. Consequently, not only are Manitoba exports more diversified than other provinces, Manitoba's economic growth is more aligned with the overall national growth than with foreign markets.

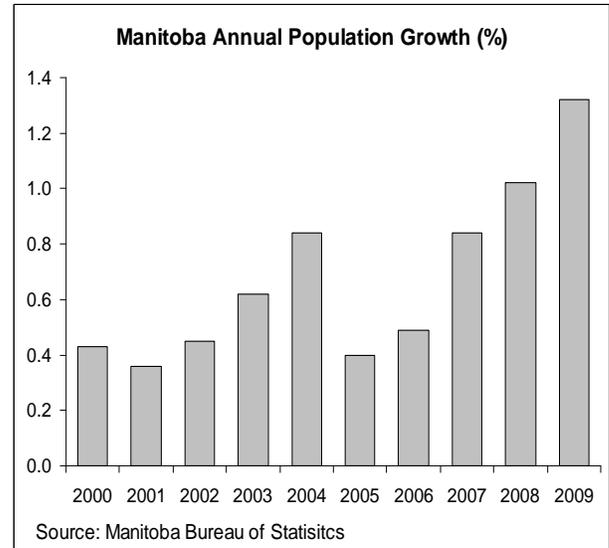
Capital spending intentions for 2009, based on a survey released by Statistics Canada in July 2009, indicate that capital investment in the province is expected to decline by 2.4% this year.



Non-residential construction is expected to increase by 5.0% while machinery and equipment investment is predicted to decline by 11.9%. Nationally, total capital investment is expected to decline by 10.4%, with Manitoba expected to post investment performance stronger than Canada's in both non-residential construction and machinery investment.

Manitoba's economy has benefitted from strong business investment growth over the past several years. Since 2000, real business investment has increased by over 50%, with real machinery and equipment investment increasing by 15% over the last two years alone.

The large increase in business investment has contributed to the strong increase in labour productivity in the province.



Over the last five years, Manitoba’s growth in labour productivity has been second-strongest among provinces and more than double the national increase. This increase in productivity improves the competitiveness of Manitoba businesses and lays the foundation for a healthy recovery in production as national and international markets recover.

Much of the relative strength of the provincial economy over the past several years is due to buoyant population growth. Population increased by 1.3% in 2009, the highest rate of population growth in almost forty years and the first time Manitoba’s rate of population growth has exceeded Canada’s since 1985.

Underlying Manitoba’s strong population increase was the ongoing increases in international immigration, with over 13,000 immigrants arriving in the past year. Over half of these immigrants were admitted under the provincial nominee program.

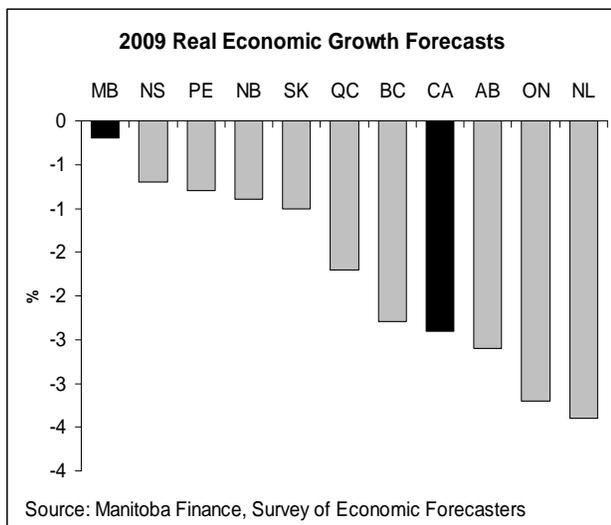
Manitoba’s net interprovincial migration situation also continued to improve in 2009, and saw the lowest net loss in 24 years (-1,541 persons).

ECONOMIC OUTLOOK

In 2009, all provincial economies are projected to contract. As the national and global economies emerge from recession in the latter half of 2009, economic forecasters project that Canada and most provincial economies will post growth in 2010 that will be below recent five-year averages.

Manitoba’s real GDP is forecast to contract by -0.2% in 2009, the smallest decline among provinces. Canada’s economy is expected to decline by 2.4%.

In 2010, Manitoba’s real GDP is projected to grow 2.3%, in line with Canada’s increase of 2.4% and fifth among provinces. Nominal GDP is projected to increase by 3.9%, below the recent medium term average of 4.8% growth and slightly below the national average forecast increase of 4.2%.



The recovery in employment in both Manitoba and Canada is forecast to be slow. The private sector survey shows employment in 2010 will grow by 0.8%, slightly above the national increase and fourth-highest among provinces. The slow recovery in employment growth in 2010 will result in higher unemployment rates in all provinces in 2010, with Manitoba’s unemployment rate expected to increase to 5.9% while the national unemployment rate rises to 8.9%.

In 2011, available forecasts indicate that all provinces will experience economic growth in line with recent levels. In Manitoba, real GDP is forecast to increase by 3.1% while nominal growth returns to recent average levels of 4.9% growth. Employment growth is projected to be relatively strong, with the unemployment rate declining to 5.6%.

With weak overall demand conditions, consumer price inflation is not expected to exceed two percent in Manitoba over the forecast period.

Recent surveys of consumer confidence have shown that Manitobans’ outlook in respect of their personal finances has improved relative to late 2008 and early 2009. Positive consumer sentiment will support growth in the provincial economy going forward.

Manitoba Outlook at a Glance

(percent change unless noted)

| | <u>2008a</u> | <u>2009f</u> | <u>2010f</u> | <u>2011f</u> |
|------------------------|--------------|--------------|--------------|--------------|
| Gross Domestic Product | | | | |
| Real | 2.0 | -0.2 | 2.3 | 3.1 |
| Nominal | 4.3 | -1.6 | 3.9 | 4.9 |
| Employment | 1.7 | 0.1 | 0.8 | 1.7 |
| Unemployment Rate (%) | 4.2 | 5.2 | 5.9 | 5.6 |
| Consumer Price Index | 2.3 | 0.8 | 1.4 | 1.7 |
| Population | 1.0 | 1.3 | 1.0 | 0.9 |

a = actual

f = forecast

Sources: Statistics Canada (2008) and Manitoba Finance Survey of Economic Forecasts (2009-2011)

Manitoba Economic Statistics

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009 (ytd)</u> | <u>Canada</u> <u>2009 (ytd)</u> | |
|------------------------------------|-------------|-------------|-------------|-------------------|------------------------------------|----------|
| | (% Change) | | | | | |
| Population | | | | | | |
| July 1st estimates | 0.5 | 0.8 | 1.0 | 1.3 | 1.2 | (July) |
| Gross Domestic Product | | | | | | |
| Real | 3.3 | 3.6 | 2.0 | (0.2) f | (2.4) | (annual) |
| Nominal | 8.0 | 8.2 | 4.3 | (1.6) f | (4.5) | (annual) |
| Sectors | | | | | | |
| Farm Cash Receipts | (3.3) | 18.2 | 9.8 | 0.0 | (4.2) | (Sept) |
| Crops | (1.7) | 73.0 | 24.7 | 2.7 | (1.4) | (Sept) |
| Livestock | (1.6) | (2.9) | (3.2) | 1.6 | (2.8) | (Sept) |
| Manufacturing | 8.6 | 8.8 | 1.3 | (10.8) | (19.7) | (Oct) |
| Mineral Production | 66.1 | 117.3 | (17.6) | na | na | |
| Value of Building Permits | 22.2 | 7.3 | 10.6 | (10.1) | (19.5) | (Oct) |
| Housing Starts All Areas | 6.3 | 14.1 | (3.5) | (24.1) | (37.5) | (Sept) |
| Retail Trade | 3.9 | 8.8 | 7.2 | (2.4) | (4.8) | (Sept) |
| New Car Sales | (1.2) | 2.6 | 2.0 | (9.5) | (13.7) | (Oct) |
| Foreign Merchandise Exports | | | | | | |
| Total | 9.6 | 19.6 | 6.4 | (17.6) | (28.7) | (Oct) |
| USA | 10.0 | 8.8 | 6.7 | (19.0) | (31.3) | (Oct) |
| Labour Market | | | | | | |
| Labour Force | 0.7 | 1.7 | 1.5 | 1.2 | 0.7 | (Nov) |
| Unemployment Rate (%) | 4.3 | 4.4 | 4.2 | 5.1 | 8.2 | (Nov) |
| Employment | 1.2 | 1.6 | 1.7 | 0.1 | (1.6) | (Nov) |
| Average Weekly Earnings | 2.9 | 5.9 | 2.7 | 2.8 | 1.6 | (Sept) |
| Consumer Price Index | | | | | | |
| (2002=100) | 2.0 | 2.0 | 2.3 | 0.6 | 0.2 | (Nov) |

Note: % change in parentheses () are negative

(ytd) - year to date

(f) Data for 2006 to 2008 are from Statistics Canada. Data for 2009 are based on the Survey of Economic Forecasters.