3.0 MANITOBA AS A PLACE TO INVEST

3.1 OVERVIEW

Manitoba's record of actual investment during the past five years has been lackluster. ,. Since 1999, the rate of *business investment as a share of GDP* in Manitoba has declined from 12.1 per cent to 11.8 per cent. To put this declining performance in perspective, the rate was also flat or declining in all other jurisdictions, with the national rate at 12.4 per cent in 2003.

Manitoba's level of enterprise gives a mixed message. Manitoba's *business incorporations per 1,000 population* has been the lowest of all jurisdictions since 1998, although it rose slightly during this time. In 2003, Manitoba's business incorporations per 1,000 population was 2.7, compared with 3.2 in Saskatchewan and 5.4 in British Columbia. While the low rate of enterprise can in part be ascribed to poor economic conditions in the past few years, it may also indicate that entrepreneurs in Manitoba are more cautious about starting up and nurturing businesses.

Despite the unimpressive record of actual investment trends in Manitoba, the INVEST indicators show that **the factors that drive Manitoba's investment *climate* have improved in the past five years**. Since 1998, Manitoba's *innovation rate (New Patents per Capita), After-tax Profits* and *Export Price Index* have increased, while *Unit Labour Costs* and *Provincial Debt as a Share of GDP* have declined. Manitoba ranked first in improving its innovation rate during this time, and in the top three for debt/GDP and real export price. This suggests a solid improvement in the province's competitiveness in attracting investment dollars.

Manitoba's one-year indicator results were particularly good in 2003. Its 40.5 per cent increase in new patents per capita put Manitoba in first place among all jurisdictions. Manitoba's small improvements in two indicators -- After-Tax Profits to GDP and Government Supported Debt to GDP – placed the province in third and second place respectively. The latter result reflects the provincial government's fiscal discipline. There was no change in Manitoba's real unit labour costs. While the export price index declined in that year, the change was, again, a small one.

This year's *MB Check Up* focuses on three indicators with particularly interesting results – **Innovation**, **Unit Labour Cost** and **Provincial Taxpayer-supported Debt to GDP.**

3.2 INNOVATION

Manitoba has truly excelled in innovation during the past five years. Between 1998 and 2003, the number of new patents-per-million population in Manitoba grew from 22.8 to 41.3, a **five year growth rate of 81.1 per cent**. The province's rate of increase far exceeds the growth rate for Canada (32.8 per cent), Alberta (44.0 per cent) or British Columbia (64.7 per cent), earning Manitoba the highest ranking in this indicator.

Manitoba's growth in innovation also needs to be viewed in terms of the absolute numbers, however. In 1998, Manitoba's number of new patents per million was among the very lowest of all jurisdictions (22.8, compared with the national average of 30.2). In the ensuing five years, this rate grew at a comparatively steady pace, finally **exceeding the national average by 2003.**

Table 3.1 New Patents per Million Population

	1998	2003	Change 98-03
Manitoba	22.8	41.3	81.1 %
BC	21.8	35.9	+64.7 %
Alberta	35.2	50.7	+44.0 %
Saskatchewan	33.4	20.1	-39.8 %
Canada	30.2	40.1	+32.8 %
Ontario	39.8	46.6	+17.1 %

Manitoba continued to hold top ranking in innovation for the one year period 2002-2003. During this time, the innovation measure shows a dramatic 40.5 per cent increase, compared to negative results in most of the other jurisdictions. The innovation rate declined by 4.3 per cent for Canada as a whole. At the same time, Saskatchewan saw its new patents per million decline by 30.9 per cent, while Alberta's rate declined by 15.6 per cent. Besides Manitoba, only British Columbia's innovation rate increased, by 3.2 per cent.

Research and development spending drives innovation activity, as it directly funds the creative work that leads to items being patented. **Manitoba saw a 33.3 per cent gain in its ratio of real provincial R&D spending to GDP between 1996 and 2001, reaching 1.2 in the latter year**. Two of its biggest spending R&D industries are aerospace and motor vehicle manufacture. Manitoba's R&D spending ratio outstripped those of Alberta and Saskatchewan in 2001 (with ratios of .9 and 1 respectively), and tied the ratio for British Columbia. Nonetheless, Manitoba's R&D ratio is still below the national average.

In 2002, Manitoba's business R&D spending declined by 22.9 per cent, following the technology stock crash in mid-2000 and subsequent poor economic conditions. Our decline was in tandem with the rest of Canada, however, as nine of the ten provinces experienced decreases in R&D spending by business in 2002.

3.3 REAL UNIT LABOUR COSTS

Unit labour costs are an indicator of the relationship between labour income and labour productivity. It is calculated as the ratio of real labour compensation per employee to labour productivity. Ideally, any increase in labour income is matched or exceeded by a corresponding increase in productivity, hence a *decline* in total unit labour cost. Decline in unit labour costs generally bodes well for the investment climate.

Manitoba has seen improvements, although small ones, in its unit labour cost over the past five years. Between 1998 and 2003, Manitoba's unit labour cost declined by 2 per cent, putting it in fourth place vis-a-vis the other jurisdictions, and on par with the Canadian average. Most of the 2 per cent decrease in its unit labour cost was due to productivity gains in the labour force, offset by smaller labour income gains.

In comparison, Alberta's 10.2 per cent decline in real unit labour cost during this time represented the largest improvement from an investment perspective, although not necessarily from workers' perspective. British Columbia ranked second with a 3.7 per cent decline, while Saskatchewan ranked third at –2.4 per cent. Ontario saw no change during this time.

Table 3.2 Real Unit Labour Costs ($1997)

	1998	2003	Change 98-03
Alberta	.49	.44	-10.2 %
BC	.54	.52	-3.7 %
Saskatchewan	.42	.41	-2.4 %
Manitoba	.51	.50	-2.0 %
Canada	.52	.51	-1.9 %
Ontario	.53	.53	0.0 %

Manitoba's unit labour cost performance was comparatively poor in 2002-2003, with no decrease in that year. Manitoba and Ontario shared the worst performances for the unit labour cost indicator, with no change. In comparison, Alberta's decrease of 8.3 per cent again put the province in first place, while Saskatchewan was second with a one-year decline of 2.4 per cent. British Columbia's unit labour cost declined by 1.9 per cent in the same year, tied with the Canadian average.

3.4 REAL TAXPAYER-SUPPORTED DEBT/GDP

The ratio of taxpayer-supported provincial debt to GDP measures debt burden. Provincial fiscal policy regarding debt can influence short and long-term investment decisions. Manitoba's government will be challenged with the dichotomy of maintaining its service levels amid growing pressures on the delicate expenditure-revenue balance, while also trying to keep a lid on provincial debt. Debt management will become even more important as we move into the next decade.

The **Manitoba government has demonstrated considerable fiscal discipline** in slowly ratcheting down its taxpayer supported debt to GDP ratio, a **19.3 per cent decline over the 1998-2003 period**. The Alberta government was the runaway leader on this measure between 1998 and 2003, with its debt/GDP ratio declining by 82.4 per cent, reducing both its debt and debt service costs at a time when it increased government spending. Abundant petroleum resources combined with strong upward oil and gas prices to give Alberta an extraordinary fiscal advantage, and put it in a workable position to accomplish this.

The Canadian average decline of 21.7 per cent between 1998 and 2003 ranked second, while **Manitoba's decline of 19.3 per cent during this period placed third.** Ontario and Saskatchewan reduced their debt ratios by 18.4 and 13.7 per cent respectively between 1998 and 2003. Only British Columbia saw an increase during this period, with its debt ratio rising by 3.5 per cent.

Table 3.3 Ratio of Real Provincial Taxpayer-supported Debt to GDP

	1998	2003	Change 98-03
Alberta	13.1	2.3	-82.4 %
Canada	30.4	23.8	-21.7 %
Manitoba	23.3	18.8	-19.3 %
Ontario	30.4	24.8	-18.4 %
Saskatchewan	27.7	23.9	-13.7 %
BC	20.1	20.8	+3.5 %

The Manitoba Government has done an admirable job of reducing its debt to GDP ratio in the face of several serious economic problems. Among these are beef import bans induced by the BSE crisis, the softwood lumber trade dispute, SARS outbreaks that cast a Canada-wide pall on tourism, forest fires and terrorism concerns. **The Manitoba government managed to reduce its taxpayer supported debt to GDP ratio from 19.7 per cent in 2002 to 18.8 per cent in 2003.** The latter is the second-lowest debt ratio level of the studied jurisdictions, a notable achievement and significantly below the Canadian average of 23.8 per cent.

When taxpayer supported debt is examined on its own (i.e. not relative to GDP), Manitoba's record is very good for the 1998-2003 period; a small 1.9 per cent increase in taxpayer supported debt and a 38.6 per cent decline in debt service costs. In contrast, British Columbia was markedly different, experiencing a large 27.6 per cent climb in taxpayer supported debt and a small 0.9 per cent decrease in debt service costs.

The fiscal future looks even brighter. **Manitoba's first provincial budgetary surplus since 2000 is projected for fiscal year 2004-05. The province's debt to GDP ratio is projected to diminish steadily over the next several years**, reaching 15.4 per cent in 2007-08, putting Manitoba on a much better comparative footing.