

LIVE WORK INVEST

INMB



MB Check-Up, Edition 2003: This report, produced by The Institute of Chartered Accountants of Manitoba, is the second edition of the MB Check-Up evaluating Manitoba as a place to live, work, and invest.

The MB Check-Up has been produced by the Chartered Accountants of Manitoba and designed in conjunction with consulting economists, who also compiled the data. As leaders in interpreting and validating information, CAs are often called upon by businesses, governments, and other organizations to provide independent, fair, and objective information to assist in decision-making. It is with this perspective that we prepared the MB Check-Up, a factual "snapshot" of Manitoba's economic and social fortunes in the past year and over the past decade.

METHODOLOGY The MB Check-Up, Edition 2003 is designed to assess trends in Manitoba's economic and social health and focuses on three areas: Manitoba as a place to live, work, and invest. For each area we evaluate five key variables that embody information about the living, working, or investing conditions in the province. Each key variable is evaluated over a short term (2002 over 2001) and a long term (1993 to 2002 or 1993 to 2001, depending on availability of statistical data) timeframe.

To provide context, the results for Saskatchewan, Alberta, British Columbia, Ontario, and the national average are also included. We are not suggesting that the provinces started at the same level. The emphasis is on what changes have occurred from 2001 to 2002 and over the past decade, although we do comment on where Manitoba stands in absolute terms relative to the other studied jurisdictions.

Added to this year's MB Check-Up are several short pieces, which we have called "Spotlight on...". They delve into a topic in greater depth and, in particular, include pieces on Manitoba taxation, employment, and post-secondary education.

To assess Manitoba as a place in which to live, work, and invest, core indicators had to be independent, available for Manitoba, Saskatchewan, Alberta, BC, Ontario, and the national average, and broad enough to reflect what is happening in each jurisdiction's economic or social life.

Data for the MB Check-Up is drawn from a number of sources, including: Statistics Canada; provincial government offices and analysts; financial institution reports; interviews with a range of experts throughout Canada - including representatives of provincial health care associations, economic development offices, or analysts at Statistics Canada; and, other published and internet sources.

An in-depth background that includes all indicators and discussions of reasons for changes in the indicators from 2001-2002 and over the past decade is available on the Chartered Accountants of Manitoba website at www.icam.mb.ca.

The data was compiled by consulting economists from Marlyn Chisholm & Associates, Crane Management Consultants Ltd., Shirocca Consulting Ltd., Banks Bywater & Co. Ltd., and Gold Island Consulting.

INVEST



3.0 MB AS A PLACE TO INVEST

3.1 OVERVIEW Over this past year and the past decade, Manitoba demonstrated improvements in four out of the five INVEST indicators. Although the province has delivered improvements in most indicators, it began the decade in a low position, so its 2002 levels do not compare well against the other studied jurisdictions.

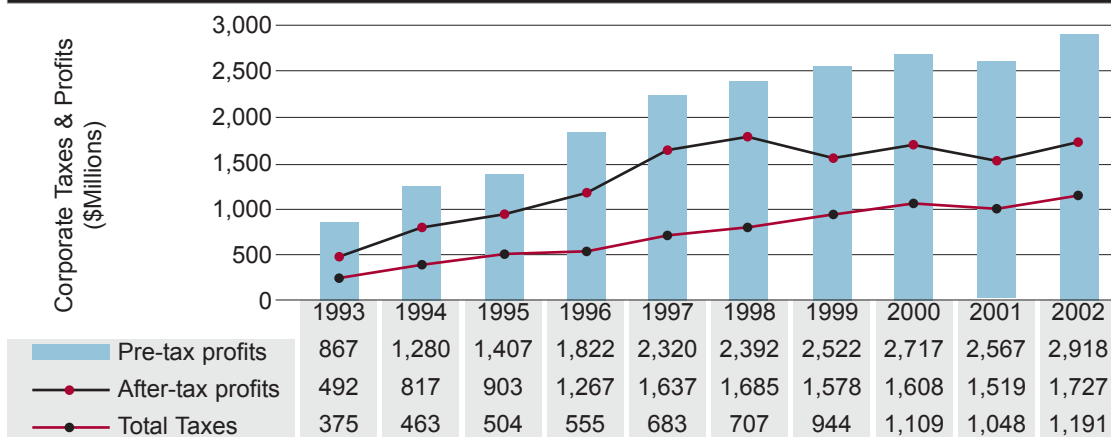
The all important after-corporate income tax profits indicator is where Manitoba falls short of the other provinces. In recent years, the province showed the highest levels of corporate and personal taxation of the benchmarked jurisdictions. Progress is being made but much more is needed to catch up and possibly surpass other jurisdictions.

3.2. SPOTLIGHT ON TAXATION Investing in a project is highly dependent on the expected rate of return to shareholders. If the rate of return is sufficiently high and other factors are favourable, then the investment will likely proceed. If, however, either the expected level of profits generated by the investment is too low or the level of taxation on those profits is perceived as being too high, there is no incentive to invest. Therefore, two factors are important when examining after-tax profits: the level of before-tax profits that businesses are achieving and the level of taxation in the province.

Before-Tax Profits

Figure 3-1 displays the trend in before- and after-tax corporate profits in Manitoba. The province does not have a good profit performance. Its level of before- and after-tax corporate profits have remained less than half of Saskatchewan's,

Figure 3-1: Before- and After-Tax Corporate Profits, Manitoba
1993-2002



despite Manitoba having the larger economy.

The difference in percentage increases between pre-tax profits and total taxes helped to push up after-tax profits for corporate Manitoba by 251% over the 1993-2002 decade. The increase in total taxes over the decade was 218% but pre-tax profits were up by 237%.

Level of Taxation

	General Rate	Manufacturing Rate	Small Business Rate	Corporation Capital Tax (Non-financial)	Corporation Capital Tax (Financial)	Employer Payroll Tax
Manitoba	16.0%	16.0%	5.0%	0.3% - 0.5%	3.0%	2.15% ¹¹
Saskatchewan	17.0%	10.0%	6.0%	0.6%	0.7%-3.25%	Nil
Alberta	13.0%	13.0%	4.5%	Nil	Nil	Nil
BC	13.5%	13.5%	4.5%	Nil	1.0%-3.0%	Nil
Ontario	12.5%	11.0%	5.5%	0.3%	0.6%-0.72%-0.9%	1.95% ¹²

In 2002, Manitoba taxpayers carried the highest corporate tax burden of the studied jurisdictions. It has been above the Canadian average since 1999. A fundamental reason for the higher effective corporate tax burden is the province's higher corporate tax rates, as shown in Table 3.1.

Manitoba and Ontario are the only provinces in the studied jurisdictions to apply a payroll tax, considered by many to be a disincentive to hire more workers. While Alberta and BC do not have a payroll tax they do apply health premiums which are borne by employers and employees.

Jurisdiction	\$40,000	\$60,000	\$80,000	\$100,000	\$125,000
Manitoba	9.1%	11.0%	12.4%	13.4%	14.2%
Saskatchewan	8.3%	9.9%	10.7%	11.1%	11.9%
Alberta	6.0%	7.3%	8.0%	8.4%	8.7%
BC	5.0%	7.3%	9.9%	11.0%	10.2%
Ontario	5.1%	6.5%	8.6%	10.4%	11.8%

Manitoba also has a relatively high personal tax burden, which can possibly discourage entrepreneurial investments and the attraction of high performers from lower taxation jurisdictions. Table 3.2 presents provincial personal income taxes as a percentage of taxable income for several income levels.

Jurisdiction	1993	2001	2002	Change 2001-2002
Canada	4.59%	9.10%	9.25%	0.15%
Manitoba	2.79%	5.84%	6.33%	0.49%
Saskatchewan	6.73%	15.99%	17.10%	1.11%
Alberta	6.34%	20.56%	16.21%	-4.35%
BC	3.11%	5.92%	5.65%	-0.27%
Ontario	5.31%	6.81%	7.81%	1.0%

After-Tax Corporate Profits

The ratio of after-tax corporate profits to private sector GDP indicates a province's current (and expected) earnings environment. It is an important investment indicator, taking into account the tax environment and the ability to earn an adequate rate of return. Higher after-tax profits encourage greater investment. Table 3.3 presents after-tax corporate profits as a percentage of GDP by province and Canada.

Given the relatively low level of profits in the Manitoba economy, it is not surprising that this province's after-tax profits to GDP ratio is well below that of the other benchmarked jurisdictions, except BC. Since 1997, there has been a slow but steady decline in Manitoba's after-tax corporate profits to GDP ratio, broken by a small upsurge in 2002.

¹⁰As of February 2003

¹¹Payrolls of \$1,000,000 or less are exempt.

¹²Payrolls of \$400,000 or less are exempt.

¹³The calculations are for rates in effect as of February 2003. The Government of Manitoba reduced its middle bracket rate from 14.9% to 14.0% as of the 2004 taxation year. This rate applies to taxable income between \$30,544 and \$65,000. It was 15.4% in 2002.

3.3 PROVINCIAL DEBT Provincial debt is measured by the ratio between taxpayer-supported debt and the province's GDP. The taxpayer-supported debt-to-GDP ratio reflects the fiscal position of a provincial government.

Manitoba's taxpayer-supported debt-to-GDP ratio is the second lowest of the studied jurisdictions in 2002. It declined by 0.9% in 2002-03 due to a better than projected fiscal performance.

Manitoba enjoyed its eighth consecutive (albeit, small) surplus in 2002/2003. These surpluses, however, have periodically been at the expense of a draw down in the Fiscal Stabilization Fund. Without the draw down, Manitoba would have recorded deficits in four fiscal years 1997/1998, 1998/1999, 1999/2000, and 2002/2003. As a consequence, while the provincial debt-to-GDP rate has shrunk since 1994/1995, the level of debt since 1996/1997 has remained relatively stable. On the other hand, debt-servicing charges have declined by 37%.

A small surplus is projected in 2003-04 and larger ones in subsequent years. Debt burden and debt servicing costs are projected to remain stable for the next three to four years.

3.4. REAL NON-RESIDENTIAL CONSTRUCTION COSTS An increase in real non-residential construction costs (the change in labour plus material costs, less inflation) means that the cost of construction (factory, warehouse, shopping center, etc.) is increasing faster than general prices in the economy. If the cost of investment to a business outpaces the prices it can command for its products, the less likely the business will be able to earn sufficient profits to pay off the investment.

In 2002, Manitoba's construction cost index declined by 0.6%, ranking second behind Saskatchewan (-3.1%). Over the past decade, Manitoba's construction costs have increased 4.7%, with the best performances being posted by Alberta and Saskatchewan, who both saw declines.

Manitoba has consistently had the least amount of non-residential construction taking place. In 2002, it had the smallest dollar amount of non-residential construction, less than half of Saskatchewan's which has a smaller overall economy than Manitoba.

3.5. REAL UNIT LABOUR COSTS An important factor driving investment decision is the rate at which labour compensation is growing in comparison to labour productivity. Increasing real wage rates are not necessarily bad for business, as long as there is a corresponding increase in productivity. Therefore, in Table 3.6, an increase in unit labour costs means that wages are rising faster than productivity, while a decline means that productivity gains outweigh wage increases.

In 2002, Manitoba's unit labour costs shrank by a very small 0.6%. The long term trend is more positive. Manitoba's real unit labour cost index fell by 6.5%, with only Alberta (-6.7%) and Saskatchewan (-9.2%) giving a better performance.

Table 3.4: Taxpayer-Supported Debt-to-GDP Ratio¹⁴

Jurisdiction	93/94	01/02	02/03	Change 01/02-02/03
Canada	29.1%	25.4%	23.5%	-1.9%
Manitoba	30.3%	20.9%	20.0%	-0.9%
Saskatchewan	46.7%	24.0%	24.3%	0.3%
Alberta	28.0%	3.5%	3.2%	-0.3%
BC	19.1%	20.8%	21.8%	1.0%
Ontario	27.5%	25.2%	20.9%	-4.3%

Table 3.5: Real Non-Residential Construction Cost Index
(1997 index=1.00)

Jurisdiction	1993	2001	2002	%Change 2001-2002
Canada	0.963	1.022	1.033	1.1%
Manitoba	0.979	1.031	1.025	-0.6%
Saskatchewan	1.017	0.994	0.963	-3.1%
Alberta	0.998	0.872	0.910	4.3%
BC	0.987	1.007	1.016	0.9%
Ontario	0.956	1.079	1.087	0.8%

Table 3.6: Real Unit Labour Cost Index
(1997 index=1.00)

Jurisdiction	1993	2001	2002	%Change 2001-2002
Canada	1.051	1.018	1.021	1.1%
Manitoba	1.068	1.005	0.999	-0.6%
Saskatchewan	1.095	0.999	0.994	-3.1%
Alberta	1.089	0.942	1.016	4.3%
BC	1.049	0.995	0.988	0.9%
Ontario	1.054	1.045	1.030	0.8%

3.6. REAL EXPORT PRICES As a net exporter, Canada and its provinces realize a significant share of their earnings from international trade, or business related to trade. When export prices increase faster than general prices in the economy, exporting businesses can expect to earn a higher rate of return, thereby attracting investors. Similarly, increased activity in the export sector translates into greater demand for raw materials, causing more activity in the non-exporting sector.

Table 3.7: Real Dollar Export Price Index
(1997 index=1.00)

Jurisdiction	1993	2001	2002	%Change 2001-2002
Canada	0.934	1.022	0.992	-2.9%
Manitoba	0.962	1.023	1.006	-1.7%
Saskatchewan	0.924	1.014	1.030	1.6%
Alberta	0.933	1.111	1.060	-4.6%
BC	0.922	1.068	0.984	-7.9%
Ontario	0.970	1.002	0.990	-1.2%

In 2002, Manitoba's real export price index fell 1.7%. This weakening reflects a fall off in hydro electricity export prices and dampened demand in the U.S. economy.

Manitoba's real export price trend over the 1993-2002 decade is similar to Ontario's trend because the manufacturing sectors rely less on further processing of natural resource commodities. Along with the other provinces, Manitoba had a great run-up in export prices in the early 1990s due in large part to rising world agricultural prices.

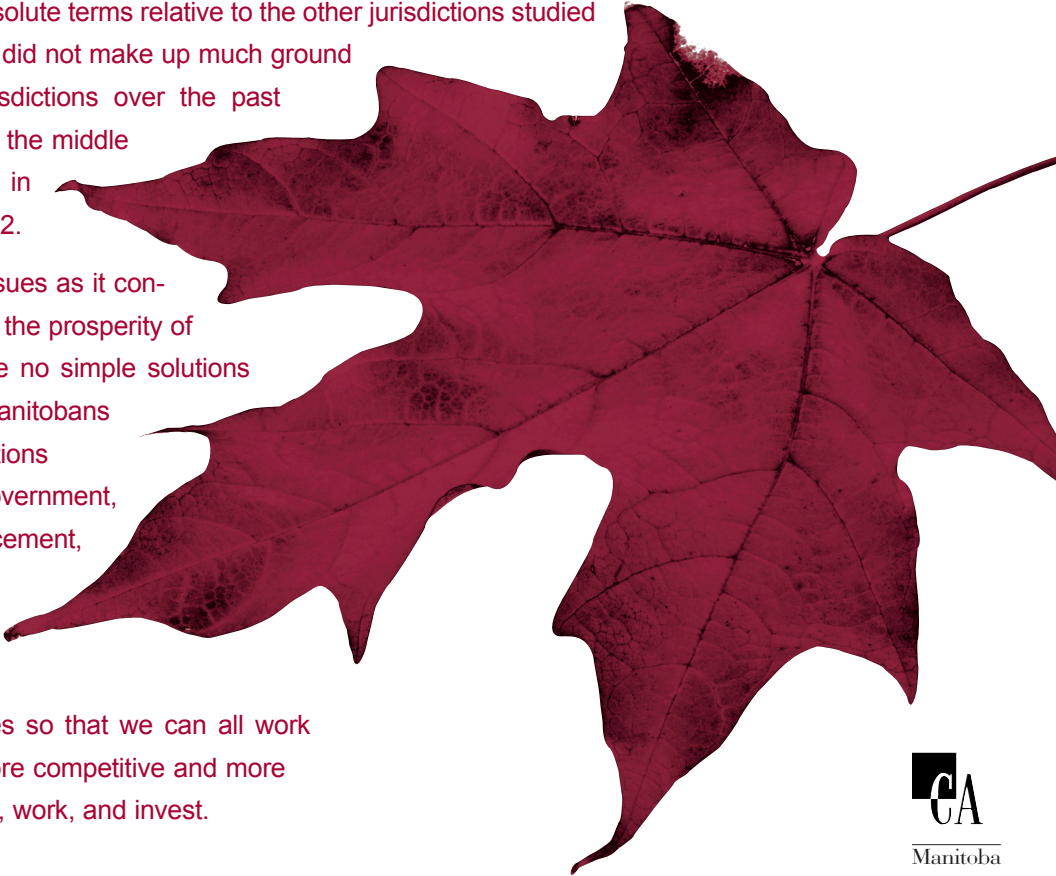
CONCLUSION

Manitoba's strong diversity in its economy has helped it weather the stormy beginning of the new millennium. Despite events such as September 11, the war in Iraq, SARS outbreaks, mad cow disease, upheaval in the capital markets, and a depressed global economy, the province has been able to weather the storm.

Over the past year and over the past decade, Manitoba has shown improvements in the majority of performance indicators considered in this study. However, despite the improvements noted, Manitoba's standing in absolute terms relative to the other jurisdictions studied remains lackluster. The province did not make up much ground on the other benchmarked jurisdictions over the past decade and continues to rank at the middle of the pack or near the bottom in most indicators at the end of 2002.

Manitoba must address these issues as it continues to move toward improving the prosperity of the province. These issues have no simple solutions and all are inter-related. All Manitobans have a role to play in finding solutions to these challenges including government, business, educators, law enforcement, and the general public.

We hope that MB Check-Up will be used as a vehicle to help focus discussion on these issues so that we can all work together to make Manitoba a more competitive and more prosperous place in which to live, work, and invest.



MB Check-Up

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Consulting Economists

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The Chartered Accountants of Manitoba are located at:
500-161 Portage Avenue East, Winnipeg MB R3B 0Y4
Tel: (204) 942-8248/1-888-942-8248
Fax: (204) 943-7119
Web: www.icam.mb.ca

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