



Reasons for Optimism

Saskatchewan Economic Profile and Forecast

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WESTERN CANADA'S ECONOMY

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1. Overview

Residents of Saskatchewan have every reason to be encouraged by their province's recent economic performance. Having gradually moved past an economy based heavily on agriculture to one diversified with energy resources, mining, high-tech research, and business and personal services, Saskatchewan will enjoy its fifth consecutive year of strong real GDP growth in 2007.

Labour shortages remain the most serious impediment to achieving even stronger economic growth. The Alberta juggernaut continues to draw young, educated people out of Saskatchewan. However, the rising cost of living in Alberta may help stem the out-migration of labour from Saskatchewan.

Saskatchewan is securing its membership in the "western power trika" that includes the red-hot economies of Alberta and BC. Solid prices for oil, agricultural products, potash, and uranium are bolstering investment activity. Wages are rising steadily, and the unemployment rate has reached a record low.

These factors should result in real GDP growth of 3.0% in 2006, and 3.3% in 2007—in both cases, well above the national average.

Figure 1

Real GDP Growth (chained 1997 dollars)

	2002	2003	2004	2005	Canada West Foundation Forecasts 2006	2007
Saskatchewan	-0.4%	4.1%	3.3%	3.1%	3.0%	3.3%

Source: Statistics Canada, Provincial and Territorial Gross Domestic Product, The Daily, November 8, 2006, and CWF forecasts

2. Energy

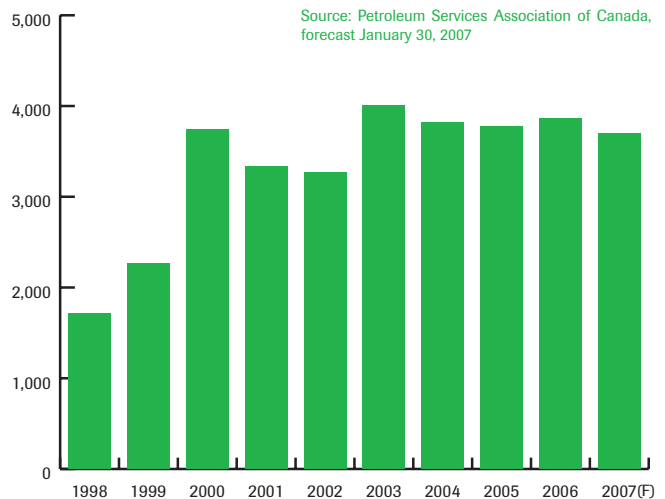
Saskatchewan is the second largest producer of crude oil in Canada, and provincial government finances have benefited from increased activity and generally higher prices over the past few years. Heavy grade crude is common in Saskatchewan and is priced at a discount against lighter grades such as West Texas Intermediate (WTI). Despite this, prices tend to move in tandem with the benchmark WTI.

Prices have fallen somewhat since 2006. Nonetheless, WTI

prices remain strong and have hovered around the \$US 60 mark for the past several months. Drilling activity in Saskatchewan is expected to soften somewhat from last year's level (see Figure 2).

Figure 2

Total Oil and Natural Gas Wells Drilled in Saskatchewan, 1998 to 2007 forecast



There is some natural gas production in the province, although it is relatively small compared to the amount of gas produced in neighbouring Alberta. In 2005, production totaled 700 million cubic feet per day, compared to Alberta's production of 13.3 billion cubic feet per day (Canadian Association of Petroleum Producers).

A major challenge for the energy industry continues to be the rising cost of services, labour and materials. The day rate cost for a drilling rig, for example, has increased by about 40% over 2005. Other input costs such as trucking transportation for crude oil producers and steel products have also increased dramatically, pinching oil producer profitability.

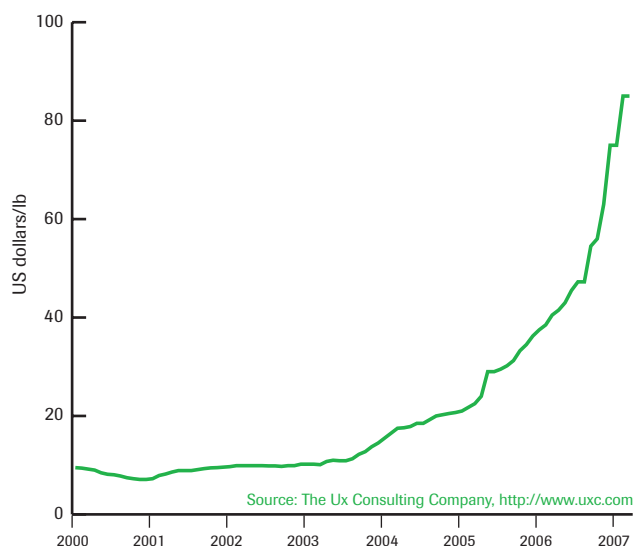
3. Mining

Uranium

Prices for uranium have continued to rise rapidly over the past few years as stockpiles of the nuclear fuel have decreased and demand has increased from China and India where dozens of

Figure 3

World Uranium Prices



reactors are scheduled for construction over the next several years. Prices in early March 2007 are in the range of \$US 85 compared to less than \$10 in 2002 (Figure 3).

Unlike other commodities such as oil, natural gas or gold, there is no formal exchange for uranium. Price indicators are developed by a small number of private business organizations that independently monitor uranium market activities, including offers, bids, and transactions among major producers and buyers (see Figure 3).

While uranium prices can be prone to large swings, some recent developments suggest that demand will stay solid and prices will continue to rise. The increased public support—both within Canada and abroad—to reduce greenhouse gases is casting a more favourable light on nuclear energy in 2007. The safety of nuclear waste disposal remains the major hurdle for nuclear energy in terms of gaining a wider base of support as a “clean” source of energy.

In Saskatchewan, clean-up and repair at the Cigar Lake uranium mine continues after a flood in the fall of 2006 shut down the mine. Once production resumes, and as construction and investment in other mines in the province proceeds, Saskatchewan’s uranium output should rise steadily over the next few years.

Potash

In April of 2005, the Government of Saskatchewan modified the provincial mining taxes applicable to potash projects, including a 10-year base payment tax holiday on expansions of 200,000 tonnes or greater. The province is also providing a capital investment incentive to promote expansion of production. This has resulted in an increased level of investment in the province’s potash industry.

The outlook for potash, nitrogen fertilizer, and phosphate prices remains very strong. Increased corn prices and production in the US (resulting from ethanol production) will boost demand as corn crops consume more fertilizer than any other US crop. As a result, the Potash Corporation is forecasting US nitrogen demand to grow by 10-15%, and potash and phosphate demand to grow by 20-25% this year. In January of 2007, the Potash Corporation announced planned capital expenditures of approximately \$400 million. Significant amounts of this capital will be directed toward bringing back idle capacity at Saskatchewan’s Lanigan facility.

Figure 4

Value and Volume of Potash Production in Saskatchewan

	\$ millions	000s tonnes
1991	765	6,007
1992	812	6,033
1993	799	5,908
1994	1,109	7,441
1995	1,219	7,687
1996	1,116	7,029
1997	1,525	8,718
1998	1,663	8,035
1999	1,682	7,975
2000	1,744	8,602
2001	1,622	7,785
2002	1,718	8,145
2003	1,632	8,791
2004	2,168	9,998
2005	2,697	9,539

Source: Saskatchewan Bureau of Statistics, Provincial Economic Accounts (Historical Economic Indicators, Table 1)

Diamonds and Gold

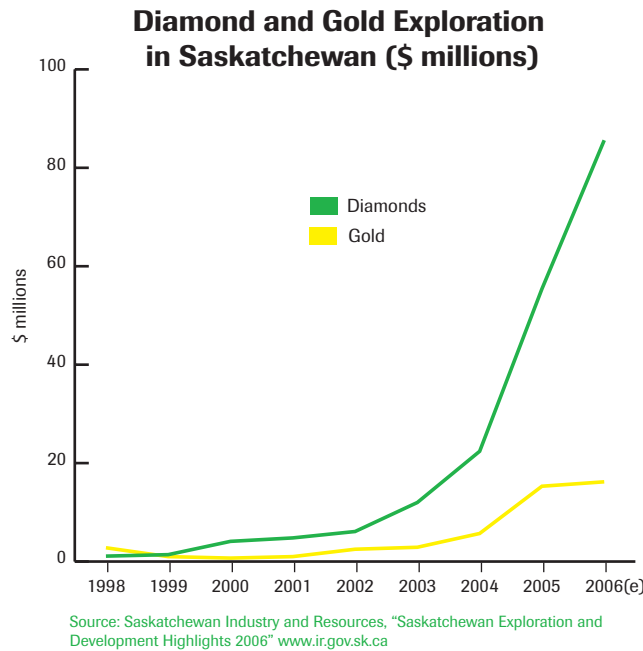
Expenditures on diamond exploration in Saskatchewan are expected to rise above \$85 million, up significantly from \$55.4 million in 2005.

Presently, there are two advanced-stage diamond exploration projects underway in the Fort à la Corne forest, 60 km east of Prince Albert.

Shore Gold Inc.'s Star Kimberlite Project is undergoing a \$60 million, pre-feasibility study that includes additional underground bulk sampling, diamond drilling, large diameter (1.2 m) drilling, and engineering studies to be completed by the end of 2007. The other project is the \$43.2 million Fort à la Corne Joint Venture project that is currently underway.

Exploration and development of gold resources in Saskatchewan have also grown strongly over the past few years. In 2006, the total amount spent on exploration for gold topped \$16 million, up from less than one million at the turn of the century.

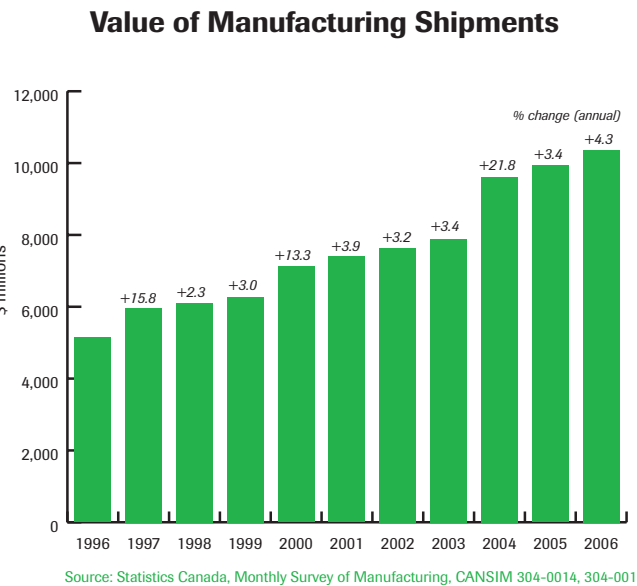
Figure 5



4. Manufacturing

Manufacturing activity in Saskatchewan continues to expand but at a more moderate pace than the level of growth experienced in 2004. Last year, the value of total shipments from the province topped \$10 billion.

Figure 6



The sectors posting the largest percentage increases were the food processing sectors (largely meat packing and slaughtering activity), steel fabrication (especially steel pipe for the oil and gas sector), and non-metallic minerals (potash). Major declines were seen in the wood and chemical manufacturing sectors, including the closure of the Weyerhaeuser Pulp and Paper Mill in Prince Albert in April 2006.

Figure 7

	\$ millions		% change
	2006 (est.)	2005	
Food	2,229.0	1,992.6	11.9
Beverage	35.7	33.7	5.9
Wood	548.5	836.3	-34.4
Printing	112.1	115.7	-3.1
Metal fabrication	581.1	473.9	22.6
Machines	805.3	751.0	7.2
Electrical equip.	212.0	161.0	31.6
Non-metallic minerals	129.1	99.4	29.9
Chemicals	896.7	1,075.6	-16.6
Other	4,814.9	4,399.8	9.4
Total	10,364.4	9,939.0	4.3

Source: Saskatchewan Bureau of Statistics, Monthly Statistics Review, March 2007

5. Research and High-Tech

The “life sciences” sectors—bio-technology, pharmaceuticals, nutra-ceuticals—are a growing sector in the province. Much of this economic activity is anchored in the research at the University of Saskatchewan, Innovation Place research park, and the Canadian Light Source Ltd. Synchrotron, a high-speed particle accelerator that provides a world-class facility for physics, bio-tech, medical and other scientific research. A second phase of construction involving seven new research stations is expected to total \$16 million over the next three years.

As well, experimental research work with enhanced oil recovery (EOR) in the Weyburn region has attracted international attention. The research is part of the Petroleum Technology Research Centre based at the University of Regina. Promising developments with EOR involve increasing the life span and reserves of older oil fields by injecting carbon dioxide into the reservoirs. The technology also holds some potential in dealing with carbon capture and sequestration in the reservoirs, thus helping remove CO₂ from the atmosphere.

Saskatchewan’s surging scientific and R&D reputation is further bolstered by major research centres such as the province’s three Agriculture and Agri-Food Canada Research Stations, the Plant Gene Resource Centre, the National Hydrology Research Centre, and the National Research Council Plant Biotechnology Institute.

The situation has not changed much from last year when it was reported by the Canada West Foundation that the commercialization and economic wealth generation of the province’s research has been limited. Although there are many examples of successful commercialization in Saskatchewan, many of the province’s small start-up R&D companies lack the venture capital and access to other seed money needed to take the research to the commercial stage.

6. Agriculture

While it no longer dominates Saskatchewan’s economy (it accounts for less than 7% of the province’s GDP), the agricultural sector is still a significant driver in rural areas.

Figure 8

Grain and Oilseed Prices

	Wheat US\$/tonne	Barley US\$/tonne	Canola US\$/tonne
2000	147.08	145.33	185.25
2001	151.53	144.90	211.31
2002	176.07	159.31	253.45
2003	177.49	178.80	271.75
2004	186.49	155.19	283.48
2005	197.62	153.26	237.49
2006	217.70	177.57	268.14
2007F	239.25	233.75	351.00

Source: TD Economics, Commodity Price Report, Feb. 5, 2007

This year, moisture levels have been higher than in past winters, but the distribution of snowfall has been particularly uneven. As a result, forecasts for spring planting conditions remain uncertain. Exceptionally heavy snowfall in the northeastern sections of the farm belt could spell floods; on the other hand, scant snowfall in the southwestern parts of the province could result in drought.

Prices for most agricultural products are quite solid at the moment. A recent TD Economics commodity price report indicates that prices for wheat, barley and canola will remain solid throughout 2007. Prices for canola will be pulled along by the escalation of corn prices in the US, driven higher by prospects for ethanol production in that country.

On March 8, Prime Minister Stephen Harper announced new funding for Canadian farmers, including \$600 million for a new contribution-style producer savings account, and \$400 million to help address high production costs for agriculture. Farm incomes in Saskatchewan will benefit somewhat from these transfers in the coming months.

7. Construction

Overall, 2006 was a great year for housing starts in Saskatchewan with total units in urban areas increasing by over 16%. The rate of growth was the highest in Saskatoon where housing starts increased by nearly 41% over the previous year.

Forecasts for housing construction and housing resale activity point towards continued strength, albeit at somewhat lower rates of growth than 2006. Interest rates in Canada are

Figure 9

Housing Starts in Urban Areas
(total unit starts)

	2005	2006	% change
Saskatoon	1,062	1,496	40.9
Regina	888	986	11.0
All urban areas	2,502	2,914	16.5

Source: Saskatchewan Bureau of Statistics, Monthly Statistics Review, March 2007

unlikely to show much movement until at least the fall. The Bank of Canada has indicated in its latest commentary that the Canadian economy is currently operating very near its capacity, and that the threats of inflation in the future remain subdued. Barring an acceleration in the weakening housing market in the US—and a more pronounced slowdown on that side of the border—there are no major factors on the horizon that are likely to change this balanced outlook. Therefore, the interest rate environment will probably remain favourable for the housing market.

The Canada Mortgage and Housing Corporation (CMHC), in its fall 2006 forecast, is seeing a 6.5% decline in housing starts in Saskatoon, but a 17.6% increase in starts in Regina. This would bring the two cities' overall starts closer in line with each other.

The most recent report of investment intentions in Saskatchewan indicates that overall construction activity within both the public and private sector is expected to increase slightly to \$6.3 billion.

Figure 10

Public and Private Investment Intentions
(\$ millions)

	Construction	Machinery & Equipment	% change
2005	5,855.50	3,021.90	
2006	6,120.70	3,529.70	8.7
2007 (est.)	6,286.50	3,494.40	1.4

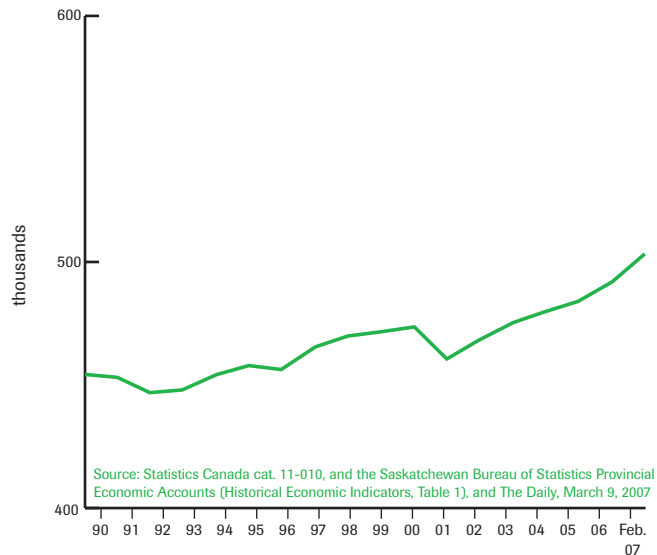
Source: Statistics Canada, The Daily, February 28, 2007

8. The Workforce

Employment in Saskatchewan has grown steadily since 1990 and now exceeds 500,000 workers. The unemployment rate—most recently at 4.0% in February 2007 (seasonally adjusted)—is

Figure 11

Employment in SK (seasonally adjusted)



Source: Statistics Canada cat. 11-010, and the Saskatchewan Bureau of Statistics Provincial Economic Accounts (Historical Economic Indicators, Table 1), and The Daily, March 9, 2007

a record low for that month and very close to the rate in neighbouring Alberta.

Wages continue to rise in Saskatchewan. The average hourly wage in the province (February 2007) is \$18.77—an increase of 3.6% from last year. This compares with an average hourly wage of \$20.15 nationally (+2.8%), and \$21.86 in Alberta (+6.1%).

One of the most serious challenges facing Saskatchewan's employers has been the shortage of workers. This is a situation that has prevailed for several years now, but has reached a more critical level in recent months. Higher wages in Alberta are often blamed for luring young, educated workers away from Saskatchewan, leaving fewer workers to recruit.

Figure 12

Average Hourly Wages

	Feb. 2006 \$/hr.	Feb. 2007 \$/hr.	% change
15 years and over	18.12	18.77	3.6
15 to 24 years	10.85	11.44	5.4
25 to 54 years	19.92	20.73	4.1
55 years and over	19.80	20.33	2.7
Full-time	19.64	20.32	3.5
Part-time	12.53	12.89	2.9

Source: Statistics Canada, CANSIM tables 282-0069 and 282-0073

The recently released census data show that Saskatchewan's population fell to 968,157 in 2006—down 1.1% from the 2001 census, and down 4.2% from the peak population reached in 1986.

In response to this situation, Premier Calvert and his government have launched an aggressive program to lure workers to Saskatchewan—or in many cases, lure workers back to Saskatchewan. Much of the campaign is focused on Alberta. Billboards in Calgary and Edmonton show a young couple standing in front of a handsome home that cost \$178,000 in Saskatchewan. The Premier himself and some of his senior cabinet ministers held an event in downtown Calgary in January of this year that promoted Saskatchewan as a great place to live, work and invest for the long-term.

Whether or not the province's promotional campaign, entitled "Innovative By Nature," is successful in attracting workers to Saskatchewan is yet to be seen. The province's falling population represents the most serious threat to the current economic expansion. However, the strong economy and relatively lower living expenses (especially housing) bodes well for a turn-around in Saskatchewan's population trends. It is possible that overall population in 2007 will stabilize and could even post a modest increase.

9. Public Finance

Saskatchewan's provincial finances continue to be in good shape. According to the third quarter update (February 26, 2007), the province estimates revenue for the fiscal year to be \$8.32 billion, up \$195 million from its previous estimates. The improvement is mainly due to higher corporate tax revenue. Total operating expenditures are now forecast at \$7.68 billion, an increase of \$206.3 million from mid-year estimates. A narrow surplus of \$5.3 million is expected (after debt servicing and payments to the Saskatchewan Infrastructure Fund).

The provincial debt is now forecast to be \$7.3 billion at the end of the fiscal year, and the debt-to-GDP ratio will decline to 16.1% (down from 16.8% the previous year). This represents Saskatchewan's lowest debt-to-GDP ratio in 20 years.

The tax situation in the province has improved. Sales taxes, business taxes, capital taxes, and personal income taxes are now much more competitive with those in Alberta, and Saskatchewan now sits within the top three or four provinces in the country in terms of favourable tax environments. The Fraser Institute ranked Saskatchewan third in the country in terms of creating and maintaining a positive investment climate.

A significant challenge that remains for Saskatchewan's economy is the difficult regulatory environment that exists with respect to labour. The Fraser Institute, ranked it the third-best province in which to invest but ranked it dead last for its labour market regulations.

10. Conclusions

For much of the 1990s, Saskatchewan's economy languished under the weight of chronically falling agricultural prices, drought, high taxes, and depressed land values. The economy in neighbouring Alberta always seemed to be doing much better. A mentality of negativity and gloom in Saskatchewan's economic future took root within the province, and a steady outflow of young people became part of the culture. Parents may have even quietly encouraged their children to leave for better opportunities elsewhere.

The situation in 2007, however, is anything but dismal, and the attitudes and perceptions within the province are starting to catch-up to the new economic realities.

Given the plentiful job opportunities, the rising wages, the improved tax situation, and the relatively low cost of living in the province, it is likely that Saskatchewan's population will stabilize and perhaps even start to grow. Solid commodity prices and a burgeoning R&D sector will certainly help, but the single best factor working in favour of Saskatchewan's economy in 2007 is housing prices in Alberta. High prices in Alberta may reduce the outward flow and may even encourage some migrants to return home to Saskatchewan.

A major challenge for the province is engaging the fast-growing Aboriginal population in the province. Much more work is needed in training young Aboriginal people, fighting racism, and meaningfully engaging them in the work force.

Overall, Saskatchewan will remain one of the fastest growing economies in Canada and, along with Alberta and British Columbia, will continue to secure its position as one of western Canada's economic powerhouses.

The Canada West Foundation is forecasting real economic growth of 3.0% for 2006, accelerating slightly to 3.3% in 2007.

 CWF

About the Canada West Foundation

Our Vision

A dynamic and prosperous West in a strong Canada.

Our Mission

A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces, the territories, and all Canadians.

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In 1970, the One Prairie Province Conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including BC and the Canadian North) should be expanded by a new organization. To fill this need, the Canada West Foundation was created under letters patent on December 31, 1970. Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

More information can be found at www.cwf.ca.



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