

# ECONOMIC RESEARCH AND STRATEGY



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## Saskatchewan First Quarter Update – Drought conditions offset commodity boost

The [first quarter report](#) published last Thursday presents mixed developments regarding Saskatchewan's fiscal situation. In a nutshell, additional program expenditures related to agriculture and education (+\$884M) more than offset higher-than-expected natural resources revenue and federal transfers (+\$757M). As a result, the province expects a \$2.7B deficit (3.1% of GDP) for FY 2021-22, marginally up from the \$2.6B estimate included in the April 2021 budget.

First, higher-than-expected commodity prices lead to a sizeable \$360M increase in non-renewable resource revenue, to \$1.7B, up by more than 50% relative to last year. The province forecasts WTI oil prices to average US\$68/bbl in FY 2021-22, up from \$54/bbl in Budget 2021. Compounded to a light-heavy (*i.e.* U.S.-Canadian) differential tighter by US\$6, it leads to a \$205M upward revisions in oil royalties relative to budget. Saskatchewan's oil price forecast is consistent with ours, based on oil prices gently moderating by year-end as OPEC+ continuously increases production in the face of stronger demand in 2021.<sup>1</sup> Potash revenue increases by \$149M relative to budget, reflecting a 21% average price increase this year. Second, the Canada child-care agreement provides an additional \$132M to the province although the province matches the amount through additional educational spending. Combined to a \$124M special federal healthcare transfers related to the pandemic, and other items, the First Quarter Report anticipates \$401M more in federal transfers relative to budget.

Second, on the spending side, severe drought conditions this summer leads to a major \$707M upward revision to agriculture spending through increased Crop insurance indemnities (+\$588M) and the AgriRecovery program for breeding stocks (+\$119M). The climate impact on agriculture yield constitutes a major long-term economic and fiscal challenge to all provinces. Saskatchewan notes that "the impact of drought, however, is a major risk for [the agriculture] sector.

Overall, the province's financial situation remains sound despite a marginal upward revision to the deficit. The FY 2024-25 deficit target of \$770M (0.8% of GDP) is attainable. Also, we could see upward revisions to taxation revenue in the mid-year update this fall since real economic activity is forecast at 5.6% in 2021, up from 3.8% in the budget. Finally, the First Quarter Report does not include a revision to net debt-to-GDP, estimated at 19.8% for FY 2021-22 in April 2021. However, government service organization debt (gross debt less sinking funds) is mostly unchanged in the update. This suggests no major revisions to the borrowing program is in the cards for now, estimated at \$4.1B in the April budget.

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<sup>1</sup> See our latest [Canadian dollar report](#) for more on oil prices.