

ECONOMIC RESEARCH AND STRATEGY



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Sébastien Lavoie,
Chief Economist
LavoieS@vmbi.ca
514 350-2931

Luc Lapointe,
Senior Economist
LapointeL@vmbi.ca
514 350-2924

Saskatchewan Mid-Year Financial Report – Consolidating last fiscal report's positive improvement

The second quarterly report confirms the clear improvement over the initial 2022-23 budget forecast. The changes relative to the first quarter update are rather modest overall but tilted to the upside. High potash & oil prices and a strong economic growth continue to support the province's fiscal situation.

Revenue is now forecast to reach \$19.5B in FY 2022-23, a 1.8% increase relative to the first update (+13.7% compared to the budget). This additional \$337M comes from several sources. The substantial \$509M upward revision in taxation revenue was partly offset by a \$462M reduction in non-renewable resources projected revenue. We also note an additional \$148M in other own-source revenue (fees, insurance, investment income), a \$52M in net income from Government business enterprises and an increase of \$90M in federal transfers.

While down relative to the first quarter estimate, the projected \$4.3B in non-renewable resources revenue is still 48% higher than initially budgeted last March. No surprise here given the increase in nominal merchandise exports: for the 2022 January-September period, exports were up 45% compared to the same period in 2021. Out of the \$38B of merchandise exported YTD, almost the same \$ amount were for agricultural products (\$12B), energy products (\$11B) and for metals & mineral products (\$13B). Only Alberta presents a better increase in merchandise exports at +58% (Canada average stands at 28%). However, oil & potash prices started to slow in the second half of 2022 and the trend is anticipated to continue, as softer cyclical momentum takes over global access problems.

The expense update shows a modest 1.6% climb compared to the first quarter report to \$18.4B. The bulk of this \$287M additional spending is related to the \$204M in expected increases in Saskatchewan Crop Insurance indemnities and AgriStability benefits that were paid in 2021 and 2022 due to the adverse weather conditions weighing down on production and revenues for farmers. That \$204M represents an increase of 19.6% relative to the budgeted \$1B in agricultural expenses. The Saskatchewan Affordability Tax Credit related expenses (\$450M) were entirely included in the first report update.

All in all, the projected surplus for FY 2022-23 now stands at \$1.1B (1.1% of NGDP), up a tiny \$50M from the first quarter. Considering the budgeted \$463M deficit, this is a huge improvement: the province is on track to record a first surplus since FY 2014-15. At \$27.9B, the public debt is forecast to be \$2.1B lower than budgeted. The projected surplus has eliminated the need for borrowing requirements (\$850M was remaining for FY2022-23) and gives the opportunity to retire up to \$1B in existing debt.

Saskatchewan is showing one of the lowest net debt to GDP ratios in Canada. At \$15.2B, net debt as a percentage of NGDP is forecast to decrease to 14.6% compared to a budgeted 19%. Only Alberta has a lower ratio (10.6%).



The province downgraded most of its first quarter assumptions related to non-renewable resource projections. WTI oil prices are now forecast to average US\$91 per barrel during FY 2022-23, down from US\$97.50. A US\$1 per barrel change in the fiscal-year average WTI oil price results in an estimated \$16M change in FY 2022-23 oil royalties. The light-heavy oil differential forecast at mid-year is 17%, up from 11.3%. A higher differential results in lower oil revenue for Saskatchewan. However, oil production is expected to grow by 1.4% in 2022 and by 2.4% in 2023, and the Canadian dollar is now forecast to average 77.7 US cents in FY 2022-23, down from 80.6 US cents in the first update. A lower exchange rate results in higher revenue as resource exports are priced in U.S. dollars.

On the economic side, the unemployment rate stayed low at 4.6% in October and employment grew 3.3% year-over-year, higher than the Canadian average of 2.6%. Saskatchewan's real GDP is expected to grow by 4.7% in 2022 by the Ministry of Finance, up from the budgeted 3.7% but lower than the private sector forecasters estimate (5.3%). In 2023, real GDP is forecast to grow by 1.4%. Nominal GDP is expected to grow by 17.5% in 2022 and by 1.1% in 2023. The downward revisions in 2023 reflect an expected world economic slowdown.

In summary, Saskatchewan is still benefiting from the global commodity boom and farmers have enjoyed much better 2022 weather. The unfortunate global food supply insecurity will continue to favor the province's agricultural exports: in mid-2022, 350M persons globally were facing, or were at risk of, acute food insecurity, compared to 140M in 2020. However, declining commodity prices and a looming recession could eventually alter the fiscal picture and prevent further larger surpluses beyond the present fiscal year. No downside scenario was included in the mid-year report.

Luc Lapointe | Senior Economist
514 350-2924 | Lapointel@vmbi.ca

Sébastien Lavoie | Chief Economist
514 213-4571 | LavoieS@vmbi.ca

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