ECONOMIC RESEARCH AND STRATEGY

LAURENTIAN BANK SECURITIES

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

Dominique Lapointe, CFA,
Senior Economist
LapointeD@vmbl.ca
514 350-2924

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Saskatchewan Mid-Year Update: Higher revenue offset by the cost of natural disasters

The Mid-Year Report revealed no material change to the near term fiscal situation. The government still projects a large $2.7B deficit in FY 2021-22, $29M above the September First Quarter Report and only $97M below the April budget.

Important increase in provincial revenues

First, 2020 assessments increase tax revenue by $617M relative to the First Quarter Report, which had not yet incorporated revisions to this line item. Stronger-than-expected 2021 real GDP growth, from 3.4% to 3.6%, supports tax revenue, especially HST (+$81M). The largest upward revisions relates to nominal GDP growth for 2021, now projected at 11% instead of 5.9%. Accordingly, the province revises up non-renewable resource by $309M, a substantial amount. The main driver this time is potash, not oil. Tightening in global potash market conditions led the province to revise up its potash price forecast by 15% to US$272/KCl. In contrast, the US$70/bbl WTI oil average price forecast for 2021 only stands US$1 above the First Quarter Report, but around US2$ below our updated forecasts. Overall, the Ministry of Finance forecasts revenues to reach $16.9B in FY 2021-22, 16% above 2020-21 and by far erasing the initial revenue impact of the pandemic on public finances.

Severe summer drought and third wave hit provincial coffers

The widespread droughts that hit the Prairies last Summer had a significant adverse impact on agricultural and livestock activity. A jump in crop insurance claims lifts agricultural expenses to $3.0B in FY 2021-22, $1.4B above the First Quarter Report estimate. It also includes $293M for the AgriRecovery program designed to help producers maintain breeding stock during the drought. As for writing, media reports that livestock farmers face feed and water shortages. Additionally, severe wildfires this summer led to an $89M upward revision to the public safety budget.

The third wave of coronavirus infections that started in August and peaked in September led to a modest tightening in economic restrictions in Saskatchewan. While those remain below all other provinces as measured by the Bank of Canada stringency index, they nonetheless led to a $250M upward revision to health spending. Fortunately, the third wave has now receded. The apparition of the new Omicron variant over the past week heightens public health and economic uncertainty. Overall, total expenses are projected at $19.6B, $2.5B more than in the Budget.

Higher relative deficit but lower debt level

Due to the impact of natural disasters, Saskatchewan exhibits a larger deficit as a share of GDP (3.1%) relative to many other provinces that have recently released fiscal updates (Quebec at 0.7%; Nova Scotia at 0.9%; Ontario at 2.2%; Alberta at 1.7%; Manitoba at 1.9%; BC at 1.4%, before floods' impact).

Important developments took place during the second quarter. Accordingly, long-term borrowing requirements have been revised up by $100M, to $4.2B. To date, 60% of the program has been completed. Overall, Saskatchewan finds itself in an enviable position to weather the impact that climate change has, and will continue to have, on public finances. At 19% of GDP, net debt competes for the lowest ratio across the country with British Columbia and Alberta. Furthermore, the 5% interest on debt-to-revenue remains very low.

CP v. Saskatchewan

Finally, investors should monitor the current court battle between the government of Saskatchewan and the Canadian Pacific Railway. CP is suing the province for $341M over an article of the Canadian Constitution that exempts the corporation from paying certain provincial taxes indefinitely in exchange for the development of the railway system. The trial began four weeks ago and is scheduled to conclude mid-December. In turn, the province wants to alter the Canadian Constitution to remove the above-cited article, which dates back to 1880.

Dominique Lapointe, CFA | Senior Economist
514 350-2924 | lapointed@vmbl.ca