



Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

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Saskatchewan First Quarter Budget Update and Medium-Term Outlook

Short-Term Improvement Relative to the June 2020 Budget

The \$2.1B deficit (2.8% of GDP) for FY 2020-21 outlined in the [First Quarter Update](#) represents a moderate improvement relative to the \$2.4B shortfall (3.4% of GDP) predicted in the June budget. The latter already incorporated the profound impact of the pandemic on the Province's financial situation. Total revenues and expenditures are now pegged at \$14.0B and \$16.2B, respectively.

The \$398M (+2.9%) upward revision in total revenues for FY 2020-21 essentially comes from higher federal transfers (+\$365M). The Province will collect \$338M from the Safe Restart Agreement announced in mid-July.

Also, the first phase of the global recovery and the quick resuming of several activities in the province following the Spring lockdowns improved Saskatchewan's economic outlook. Both real GDP (from -6.3% to -5.5%) and nominal GDP (from -12.8% to -9.8%) growth forecasts for 2020 were revised up relative to the June budget. Total revenues are nonetheless expected to be a notch weaker in FY 2020-21 (\$14.1B) than a year ago (\$14.9B) as the global oil market imbalance weighs down on own-source revenues. Recent reports showed virtually no oil drilling activity in the Province since last Spring. [Oil production](#) was down 26% y/y in May and down 7.6% year-to-date, reaching its lowest level in two decades. Fortunately, the expected increase in potash sales should partially offset the decline in prices for that fertilizer. Crops, another key driver of fiscal revenues, are in fairly good conditions this year. Wheat and canola prices are projected to be broadly the same as a year ago.

The update includes minor tweaks to dollars spent among a few ministries. Total expenditures were only revised up by \$103M (+0.6%) to \$16.2B, including \$40M to facilitate the safe reopening of schools. Speaking of, the update does not include the \$75M the Province will get from Ottawa as part of the \$2B total funding for school reopening announced earlier this week by Prime Minister Trudeau. This amount will likely be added to federal transfers in the next fiscal update.

Medium-Term Outlook Proposes a Manageable Debt and Return to Surplus in 2024-25

In addition to the encouraging fiscal developments in FY 2020-21, the documents provide a medium-term outlook showing the government's intention to stay fiscally responsible post-pandemic.

The projected return of total revenues to pre-pandemic levels in FY 2022-23 is based on plausible forecasts, not on an overly optimistic V-shaped scenario. Indeed, annual nominal GDP growth is penciled at 7.2% for 2021 and at 5.0% on average afterwards. On the spending side, expenditures are projected to slightly decline next year due to the non-recurrent nature of COVID-19 spending. Combined with a modest 1.5% annual increase in spending in the following years, the deficit gradually shrinks until a surplus is reached in FY 2024-25 (chart 1).

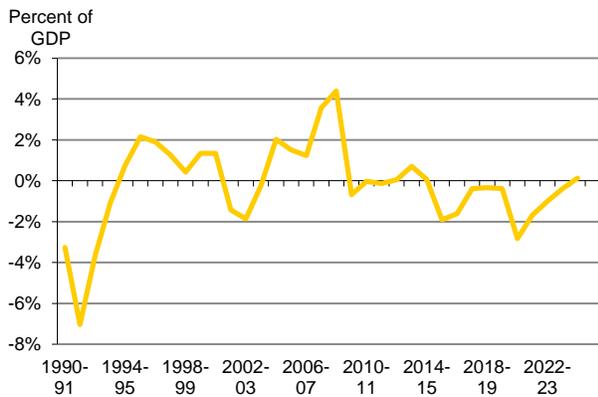




Accordingly, the net debt-to-GDP ratio will remain low and fairly stable over time between 20% and 22% (chart 2). The borrowing program remains for now at \$4.5B, of which \$3.4B (77%) has been completed

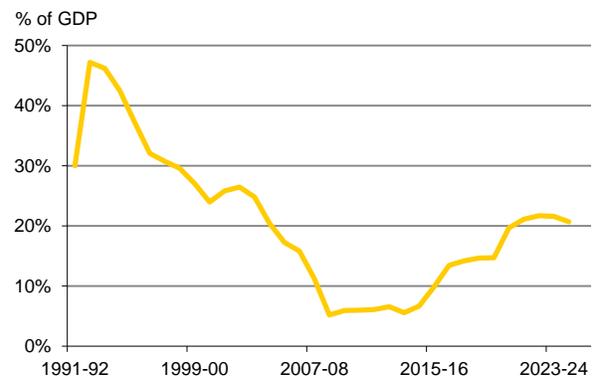
In summary, the update contained good news for FY 2020-21. Investors will also appreciate a transparent medium-term outlook despite Covid-19 uncertainty. In that regard, the short- and medium-term economic outlook primarily depends on the authorities' ability to control the virus. The availability of safe and efficient vaccines is notably imperative to foster the next leg of the global recovery and boost demand for Saskatchewan's key commodities. We also keep on our radar the provincial elections to be held on or before October 26th. According to a poll conducted in July, the Saskatchewan Party leads with 57% of voting intentions; the NDP gets 32% among decided voters; 23% are undecided.

Chart 1: Saskatchewan Budgetary Balance



Source: Saskatchewan Government, Government of Canada Fiscal Reference Tables, LBS Econ. Res. and Strategy.

Chart 2: Saskatchewan Net Debt



Source: Saskatchewan Government, Government of Canada Fiscal Reference Tables, LBS Econ. Res. and Strategy.

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