

ECONOMIC RESEARCH AND STRATEGY



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Saskatchewan First Quarter Update – Potash Boom Leads to Surplus and Debt Reduction

The global food and energy crisis unfortunately drive more people on the planet in poverty and insecurity. At the same time, it creates sustainable opportunities from leading commodity export jurisdictions. Saskatchewan is clearly one of them. For instance, Saskatchewan's potash sector is on track to another record year in terms of production and sales. Companies have recently announced plans to ramp up production over the 2023-26 period, solidifying the medium-term economic outlook. Also, in previous write-ups, we highlighted the announcement of three major canola crush projects. One of them have been canceled earlier this summer. Still, the Province will be recipient of several \$B in terms of private investment. Unemployment also sits at an 8-year low of 4%, a very comfortable level even though full-time job creation underperformed most provinces in 2021-22. Resale housing conditions have been cooling down during the first half of 2022, but to a lesser extent than most Provinces. The number of units sold remains significantly higher than pre-pandemic levels, a rarity in the provincial space. Housing starts are on an uptrend, with the number of units in 2022 on track to surpass slightly 4.5K, a better performance relative to recent years. All in all, Saskatchewan is on track to an outsized nominal GDP jump of nearly 20% this year and a 5% very solid real GDP gain.

Before today's update, public accounts released last June revealed a \$1.5B deficit for FY 2021-22, a \$1.1B improvement relative to 2021 budget based on very prudent assumptions. Given the very supportive global commodity market backdrop, the \$463M deficit projected in the March 2022 budget has been easily erased. The [first quarter update](#) marks a major turnover, projecting a \$1.1B surplus. The last balanced budget was registered in FY 2013-14. The largest surplus was \$3.0B in FY 2007-08, propelled by crude oil prices mostly.

Potash is the main driver this time, not oil. Total revenue forecast is up \$2B or 12% from budget. More than half of this amount come from potash revenue alone. The potash price assumption for FY 2022-23 was revised up by 50% relative to budget. The upward revision in oil and natural gas revenue is significant, although one-third in terms of magnitude relative to potash. WTI crude oil prices are projected to average US\$97.50 per barrel for FY 2022-23 about \$22 higher than the budget assumption. Overall, non-renewable revenues of \$4.8B should make up for 27% of own-source revenues in FY 2022-23. Taxation revenue is revised up by \$0.5B to \$8.6B.

Total expense is up by \$0.5B, 2.9% relative to budget. The lion share of this increase is tied to the one-time \$500 payment each individual will receive this Fall, a measure costing \$468M. The cost of living jumped by 8.1% from a year ago, or 10% from two years ago, according to the Saskatchewan CPI. The challenging inflation environment also led the government to keep the small business tax rate to 0% for one year, retroactively effective July 1st 2022 (instead of



2%). Business confidence is already the highest among Canadian Provinces according to the Canadian Federation of Independent Business.

Suddenly awash in cash and despite a modest increase in debt from crown corporations, the government will retire up to 1\$B in debt. Due to the higher interest rates environment, this good policy choice will reduce debt servicing costs over time. Total public debt is now projected at \$28.3B and net debt at \$15.2B in FY 2022-23. The net debt to GDP ratio is forecast at 15.6% versus 18.8% at budget, the lowest among Canadian Provinces. Prior to the first quarter update, about half (52%) of the FY 2022-23 \$3.3B borrowing program has been completed. Given the sudden shift from a deficit to a large surplus position, Saskatchewan now has a small \$199M left. Pre-financing activity could lead to higher borrowing activity.

In summary, the commodity boom leads to a massive positive turnaround in short-term fiscal results we rarely see. Compared to volatile oil prices in the past, the medium-term revenue outlook appears more stable now due to the signs of a prolonged period of global food insecurity supporting the potash industry. Furthermore, according to the [Fiscal Sustainability Report](#) released by the Office of the Parliamentary Budget Officer (PBO) in July, Saskatchewan is one of the four provinces with a sustainable fiscal path. Unsurprisingly, all three major rating agencies have affirmed their credit ratings during the summer season (DBRS AA low; S&P Global AA; Moody's Aa1). Saskatchewan has the second highest ratings among Canadian provinces.

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