Higher oil prices brighten Saskatchewan’s outlook

We expect the Saskatchewan economy to start growing again this year after two years of contraction. We project activity to rise by 1.8% in 2017 and 2.3% in 2018 mainly on the basis that oil prices continue to recover gradually from their earlier slump.

Last year’s weakness was not quite as severe as we thought

While preliminary GDP estimates for 2016 from Statistics Canada showed that economic activity fell in Saskatchewan last year, the reported 1.0% drop was less than we anticipated in the March Provincial Outlook report. The mining sector slump continued to weigh significantly on the provincial economy. Yet, the 4.5% drop in mining output last year was about one-half the decline we assumed in our March forecast. Our view was based on a double-digit fall in oil production estimates from the National Energy Board (NEB). Statistics Canada’s estimates instead showed a much more moderate 3% drop in oil and gas extraction. Our forecast assumes that oil and gas production will rebound at rates of 4.5% this year and 3% in 2018. Early NEB production numbers for 2017 lead us to believe that this rebound so far is on track in the province.

Non-energy mining to remain under pressure in 2017

The downturn in oil and gas extraction was not the only culprit for Saskatchewan’s mining sector slump last year. Non-energy mining also dropped by 2.6%. This too was more modest than we anticipated. Industry production numbers for potash suggested a drop of more than 10% in the year. We expect that non-energy mining output will decline further this year by 4% amid continued potash production shutdowns in the province. Our outlook has potash production stabilizing in 2018 thanks to a strengthening in global demand for fertilizers. Aggregating both energy and non-energy sub-sectors, we expect overall mining activity in the province to increase by 2% in both 2017 and 2018.

Construction activity to rebound

A sharp 14% drop in construction activity also contributed to the fall in economic activity last year in Saskatchewan. The weakness in the mining sector caused further retrenchment in the spending on major capital expenditure projects. We expect that a return to modest positive growth in the mining sector through our forecast will reduce the pace of decline in construction spending significantly this year and lead to a recovery in 2018. Statistic Canada’s most recent annual capital expenditure survey corroborated the marked weakness in capital spending in 2016 by showing a decline of almost 17%. The survey also indicated that spending intentions in 2017 increased by a modest 3%, which points to some upside risk to our construction outlook this year.

Agriculture to continue to grow

A sizeable increase in crop production last year sent agricultural activity up by 5.3%. This helped to temper the effects of declining sectors on the provincial economy. We expect the agricultural sector to continue to expand at rates of 3% in 2017 and 2% in 2018 on the assumption of normal growing conditions.