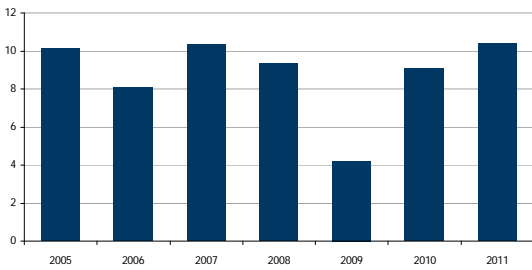
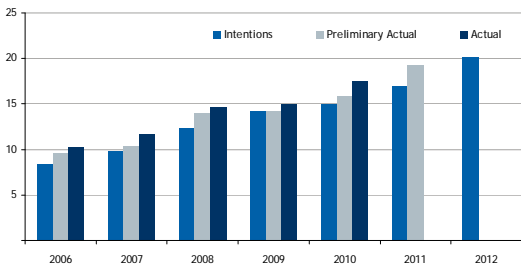


Saskatchewan potash production
Million tonnes



Source: Saskatchewan Industry and Resources, RBC Economics Research

Saskatchewan private and public investment
Billions \$



Source: Statistics Canada, RBC Economics Research

Saskatchewan forecast at a glance

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	4.0	4.3	4.6	4.7
Employment	0.9	0.3	1.7	1.9
Unemployment rate (%)	5.2	5.0	4.8	4.6
Retail sales	3.1	8.5	5.9	6.5
Housing starts (units)	5,907	7,200	7,600	7,900
Consumer price index	1.3	2.8	2.4	2.6

Taking the lead

We remain relatively optimistic about the outlook for growth in Saskatchewan this year and next with growth of 4.6% and 4.7%, respectively, after an expected 4.3% increase in 2011. Although the 2011 estimate represents slightly lower growth than what we suggested last quarter (4.5%), growth this year has been revised up from 4.2%, thereby putting Saskatchewan in the lead among the provinces once again.

Potash production expected to recover in 2012

This optimism on growth this year is being maintained despite indications of some weakening in potash production during the fourth quarter of 2011. A slowing in demand may have been related to increased concern about the global recovery in the face of the European sovereign-debt crisis. Recent aggressive policy actions in Europe have helped to ease those pressures, and we expect that this will result in a recovery in demand. Such a result would bode well for potash production continuing to rise in 2012. The weakness in potash production during the fourth quarter of last year prompted us to revise downward mining output in 2011, however.

Capital spending expected to continue to increase...

A key reason for our optimism about growth in Saskatchewan this year is the expected strength in capital expenditures. According to Statistics Canada’s recently released P&PI survey report, the public and private sectors plan to increase their nominal spending by 4.2% in 2012. On the surface, this may seem relatively modest although there is a strong historical pattern for these planned expenditures to be exceeded by actual investment spending. For example, capital spending in 2010 for Saskatchewan was initially estimated to increase by 5.9%, but the recently released actual figures now show a more substantial rise of 17.3%. (This stronger increase may prompt an upward revision to overall 2010 GDP growth currently estimated at 4.0%.) Similarly, growth in the “preliminary actual” figure for 2011 is now 10.3% compared with the original spending intention growth rate of 7.2%.

...thanks to projects in the mining and utilities sectors

The increase in capital expenditure this year is almost fully accounted for by the mining sector and likely reflects increased spending on various potash projects. There was also increased spending within the utilities sector, with the main offsets provided by reduced spending in manufacturing and by municipal governments. Given the increased in-migration into urban areas of Saskatchewan, spending by local governments may be one area that will eventually see an upward revision this year once the final tally is compiled.

Agriculture production to continue to grow albeit at a more moderate pace

Indications of a 14% rebound in agriculture output in 2011 after a weather-related 18% drop in 2010 was a key support to growth in Saskatchewan last year. We assume a further recovery this year and next under the assumption of normal weather conditions during the forecast and the reversal of current dry soil conditions. Even under these favourable assumptions, however, growth in agricultural production is expected to slow to 6% this year and 3% in 2013. The continued growth in agriculture and capital spending in the natural resource sector are contributing to noticeable gains in manufacturing sales with the machinery and fabricated metal components showing particular strength for 2011. We expect manufacturing to continue to contribute to growth throughout the forecast.

Paul Ferley
Assistant Chief Economist

