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Saskatchewan budget update

Weakness in potash drives a hole in revenues

Thanks to the hefty rainy-day fund set aside during the resource boom, the Province of Saskatchewan continues to be able to balance its books despite the global economic downturn and severe hit its external sector is sustaining. While the domestic side of the provincial economy is faring better than much the rest of Canada, exports are being hammered by plummeting foreign demand for the Province's natural resources. As a result, the Ministry of Finance's mid-year update reflects a significant downward revision to the Province's overall growth forecast for 2009, with real GDP projected to fall by 2.9% (versus the March Budget forecast of an increase of 2.1%) and nominal GDP to plunge by 11.9% (compared to the Budget forecast of a 4.0% decrease). (In September, RBC Economics revised down its 2009 real GDP forecast for the province to -1.3% from 0.7% previously forecast in June).

Despite this economic deterioration, the provincial government is leaving its reported bottom line unchanged in 2009-10, still projecting the \$425-million surplus laid out in the March Budget. However, this is only being maintained through a \$564-million transfer from the Province's Growth and Financial Security Fund, as Saskatchewan is now projected to post its first operating deficit since 2003-04.

In the Saskatchewan government's update, provincial revenues have been revised down to \$9.9-billion, \$229-million (2.3%) lower than August's first quarter update and \$788-million (7.4%) lower than Budget projections. The primary driver of this decline is potash royalties, which are now projected to generate revenues of \$109-million compared to the \$1.9-billion laid out in the Budget (the first quarter update initially revised this figure down to \$638-million). The large fall-off is the result of both lower prices, which have been revised down to US\$452 per tonne from US\$556 cited in the Budget, and drastically lower demand, which has led the Province to project a total sales volume of 4.4-million tonnes (down from 10.2-million tonnes). This new sales volume projection would represent the lowest level since 1972.

Partly offsetting the decline in revenues from potash is a \$380-million increase in oil royalty revenues due to an upward revision to crude prices (from the average of US\$48.75 per barrel forecast in the Budget to US\$65.73) and a significant boost of \$460-million in special crown corporation dividends relating primarily to the sale of the Province's stake in nitrogen fertilizer plant, Saskferco. There are also additional increases to corporate and personal income tax revenues of \$172-million and \$46-million, respectively, which reflected stronger-than-anticipated assessment data from the previous tax year and an acceleration of corporate installment payments from the federal government.

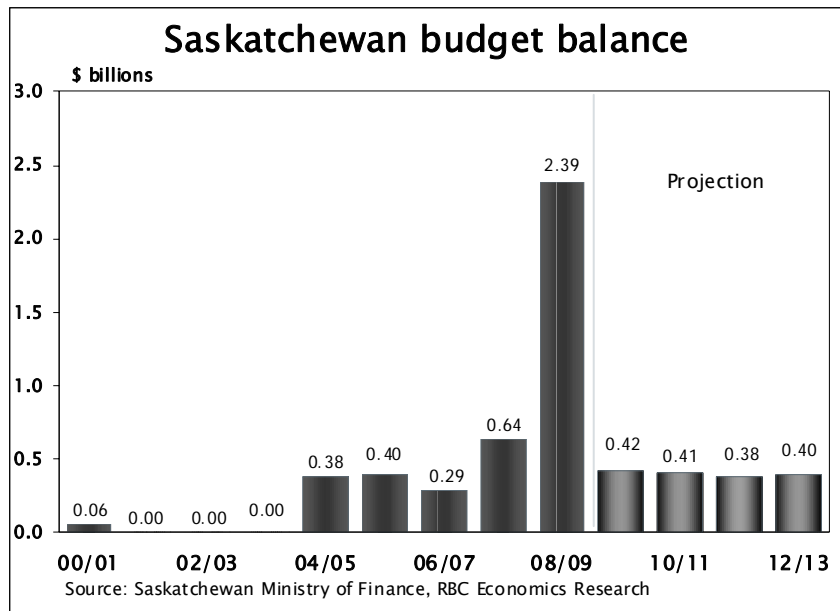
Expenditures by the Province have been revised down by \$233-million (2.3%) compared to the Budget due to increased fiscal restraint. Capital funding deferrals and other cost savings are projected to reduce expenses by \$356-million, while additional infrastructure spending of \$123-million provides a partial offset. The revised expenditure would represent a 3.3% cut from 2008-09 levels, following an average growth rate of 8.6% seen over the previous six years. Further, this sharp pull-back on expenditures goes against the trend seen across all other provinces (except for Alberta) of attempting to stimulate the economy by ramping up infrastructure and program spending.

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While the recession appears to have hit Saskatchewan far more than was initially anticipated in 2009, the outlook going forward still appears to be relatively bright. As the global and Canadian economic recovery continues to gain traction, the province is projecting a return to growth, with real GDP rising by 2.4% in 2010 (downwardly revised from the Budget forecast of 2.9%) and 2.0% in 2011 (compared with 2.1% previously).



Saskatchewan's fiscal plan

(\$ billions)	Actual	Actual	Actual	Budget Estimate	Mid-Year Update (Nov)
	2006/07	2007/08	2008/09	2009/10	2009/10
Total revenues	8,643	9,865	12,325	10,661	9,873
Total expenditures	8,245	8,583	10,355	10,245	10,013
Pre-transfer surplus	398	1,282	1,970	415	(140)
Transfer to GFSF			(985)	(208)	
Transfer from GFSF			1,404	217	564
Transfer to the Fiscal Stabilization Fund		(641)			
Transfer from (to) the Saskatchewan Infrastructure Fund	(105)				
Net transfers	(105)	(641)	419	9	564
GRF Surplus	293	641	2,389	425	425

Source: Saskatchewan Ministry of Finance, RBC Economics Research