



DROUGHT CONDITIONS STUNTED SASKATCHEWAN'S ECONOMIC GROWTH IN 2015: RBC ECONOMICS

TORONTO, September 22, 2015 — Significant drought conditions weakened Saskatchewan's economic growth this year, but the province is expected to rebound in 2016, according to the latest [RBC Economics Provincial Outlook](#) released today. RBC forecasts real GDP to decline by 0.6 per cent in 2015, down from the 1.6 per cent increase projected in June. Still, RBC expects growth in 2016 of 2.5 per cent, an increase from the 1.9 per cent previously forecasted.

RBC's downward revision to Saskatchewan's economic outlook mainly reflects the emergence of drought conditions in agricultural regions of the province. RBC's positive forecast for 2016 is based on the assumption of a return to more normal weather conditions and the bounce back in agricultural production that should come with it. That said, the recovery in 2016 is expected to be tempered by continued, albeit lessening, declines in the energy sector.

"Economic activity in Saskatchewan has historically been buffeted by swings in three main outputs: agricultural crops, energy, and potash," said Craig Wright, senior vice-president and chief economist, RBC. "While we expected the drop in oil prices to weigh on energy sector activity both this year and next, our June assumption of a gain in crop production did not materialize because of drier-than-normal weather. Potash production has been a bright spot in 2015 and continues to show signs of growth that we expect will continue through the remainder of the year."

Crop production numbers released by Statistics Canada in August confirmed the negative effect of the drought, with production of the three largest crops in the province projected to drop by 14 per cent relative to year-ago levels. Some precipitation eventually emerged late in the 2015 growing season, following Statistic Canada's preliminary tally, though RBC's expectation is that crop production will still likely decline by 10 per cent in 2015. For 2016, RBC assumes a return to more normal growing conditions, which should reverse this decline, with crop production rising by 12 per cent.

Indications of weaker-than-expected capital spending in the province also resulted in a downward revision to the 2015 growth forecast. Statistics Canada's *CAPEX* survey indicated that the private and public sectors plan to reduce spending in Saskatchewan by 13 per cent in 2015 after a 2 per cent drop in 2014. This largely reflects a 33 per cent decline in spending in the energy sector, as well as a lesser decline of 12 per cent in the non-energy mining sector.

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“With our expectation of only a modest rise in oil prices in 2016, investment spending is likely to continue to decline in 2016, although at a moderate rate relative to 2015,” added Wright.

Following a strong start in the first half 2015, potash production in Saskatchewan is expected to continue growing in the latter half of the year. While the pace of production has slowed from double-digit gains at the start of the year, the overall increase in 2015 is still expected to match the 6 per cent increase recorded in 2014. A strengthening U.S. economy is expected to allow this growth to last into 2016.

Continuing demand for potash has contributed to an increase in capital spending on various projects in this sector in Saskatchewan. However, the near-completion of some of the larger projects is contributing to declining investment in non-energy mining as suggested in the CAPEX survey.

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales, housing starts and consumer price indices. The full report and provincial details are available [online](#) as of 8 a.m. ET today.

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For more information, please contact:

[Craig Wright](#), RBC Economics Research, 416-974-7457

[Paul Ferley](#), RBC Economics Research, 416-974-7231

[Romina Marij](#), Communications, RBC Capital Markets, 416-974-3558