

Agricultural sector to help economy back to growth in 2016

Saskatchewan's economy clearly faced significant challenges in 2015 with the province's energy sector contending with sharply lower oil prices; however, we expect that overall conditions will improve in 2016, thanks in large part to an anticipated rebound in the agricultural sector. Several economic indicators stress the weak state of affairs in the province in 2015. The unemployment rate surged to a five-year high of 5.6% in October 2015, thereby representing quite a dramatic swing from the 3.6% that prevailed in the last quarter of 2014. Deterioration in labour market conditions reverberated across household-dependent sectors, for example with retail sales declining on average almost 1% during the first three quarters of 2015 on a nominal basis (and excluding gasoline stations). Big-ticket items such as new motor vehicles were hit particularly hard as unit sales fell by 5.3%. The housing market is another sector feeling the pinch with home resales down by more than 12% in the first 10 months of 2015.

A lessening in the weakness in the energy sector in 2016 and...

Generally, soft economic data are consistent with our view that overall 2015 real GDP growth for the province will decline by 0.6% after a modest 1.9% gain in 2014 and a 5.8% surge in 2013. This downturn in 2015 growth in part reflects the effect of the drop in oil prices and attendant cutbacks in energy investment in the province. Such cutbacks in the energy sector also likely contributed to a marked double-digit drop in manufacturing sales in the province. Our assumption that oil prices will start to recover modestly in 2016 likely will lessen, although not eliminate, a further decline in capital spending in 2016.

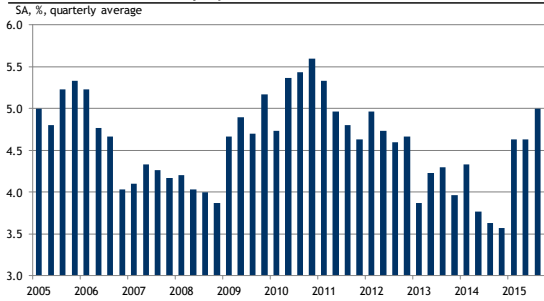
...a recovery in agriculture should see a return to positive GDP growth next year

The projected decline in 2015 real GDP growth also largely reflects a substantial weaker than expected crop due to dry weather conditions. A recently released survey by Statistics Canada indicates flat production of the province's three major crops (wheat, canola, and barley), which would come on the heels of a 21% plunge in 2014. An even greater decline for 2015 had been flagged in earlier-released production numbers; however, rain late in the growing season helped temper the estimated drop. We expect overall agricultural production will be flat in 2015. For 2016, an assumed return to more normal growing conditions would result in a strong rise in agricultural sector output, which we peg at 8%. We assume further growth of 2% in the sector in 2017. This outlook for agriculture contributes to our overall real GDP growth forecast in the province rebounding to 2.5% in 2016 before moderating to 1.8% in 2017.

Potash production rises despite weak prices

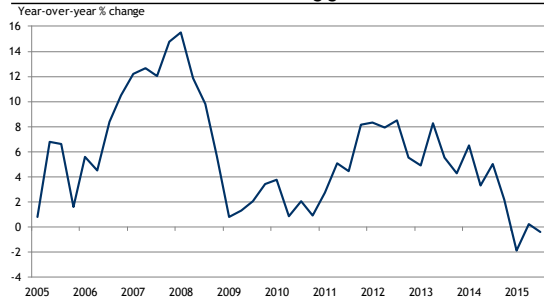
The weakening in real GDP 2015 growth is being tempered by indications that potash production rose strongly during much of 2015. Data through September are indicative of production rising by 10% in 2015, which would be up from a 6% increase in 2014. This increase should occur despite a weakening in potash prices. Nonetheless, lower prices have resulted in some announced production cuts in the fourth quarter of 2015, which dims prospects for production growth in 2016 and 2017.

Saskatchewan : Unemployment rate



Source: Statistics Canada, RBC Economics Research

Saskatchewan : Retail sales excluding gasoline stations



Source: Statistics Canada, RBC Economics Research

Saskatchewan forecast at a glance

% change unless otherwise indicated

	2012	2013	2014	2015F	2016F	2017F
Real GDP	1.7	5.8	1.9	-0.6	2.5	1.8
Nominal GDP	4.2	7.1	-0.9	-3.9	5.4	5.4
Employment	2.4	3.1	1.0	0.5	1.0	1.0
Unemployment rate (%)	4.7	4.1	3.8	5.0	5.8	4.8
Retail sales	7.4	5.1	4.6	-2.6	2.9	3.8
Housing starts (units)	9,968	8,290	8,257	5,000	6,000	6,500
Consumer price index	1.6	1.4	2.4	1.6	2.4	2.5

Paul Ferley
Assistant Chief Economist