



LULL IN POTASH PRODUCTION TRIMS SASKATCHEWAN'S ECONOMIC GROWTH: RBC ECONOMICS

Saskatchewan still expected to be a growth leader in Canada in 2013 and 2014

TORONTO, December 13, 2012 — Rising inventories have led to large cutbacks in potash production in Saskatchewan, which is ultimately weighing on economic growth, according to the latest RBC Economics Provincial Outlook released today by RBC Economics Research. In wake of these production cutbacks, RBC's forecast for Saskatchewan has been revised downward – to 2.8 per cent in 2012 and 3.5 per cent in 2013 (from 3.6 per cent in 2012 and 4.0 per cent in 2013). At these rates of economic growth, Saskatchewan is expected to remain a growth leader in Canada in 2013 and 2014.

“It seems that emerging economies are holding back on purchases of potash until long-term agreements have been signed with major producers in the province,” said Craig Wright, senior vice-president and chief economist, RBC. “Although some recently announced production shutdowns extend into early 2013, we expect that activity will steadily recover as sales agreements are reached with major overseas customers.”

The Outlook also anticipates that drought conditions in the U.S. midwest will prompt producers to aggressively attempt to bolster crop yields, resulting in increased demand for fertilizer and, in turn, potash. RBC assumes that after an expected increase of 1.5 per cent in 2012, mining production will expand by a more robust 4.5 per cent in 2013.

RBC notes that the downward revision to overall GDP growth this year also reflects indications that canola production will drop below 2011 harvest rather than the increase previously assumed. Though 2012 wheat harvest is expected to surpass 2011 levels, this offsets the canola production drop, resulting in unchanged production volumes of the province's three main field crops, including barley.

Historically robust demand for potash and other key provincial natural resources will support continued strength in business investment and producers expanding production capacity. This will propel construction spending to 5.5 per cent in 2013.

Additionally, provincial retail spending numbers show high commodity prices are not only contributing to an increase in capital spending but also boosting incomes and fueling strong employment gains in Saskatchewan. This lift was evident in the third quarter of 2012, when nominal retail sales were up over eight per cent on a year-over-year basis compared to only two per cent nationally. RBC expects this relative strength to continue through the forecast.

“The rebound in mining output alongside continued strength in construction and retail spending should result in growth of 3.5 per cent next year,” added Wright. “Saskatchewan will remain a growth leader in the country through to 2014.”

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 of 8 a.m. ET today at rbc.com/economics/market/pdf/provfcst.pdf.

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