

Tightening the Belt

Fiscal Year 10/11

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March 24, 2010
4:15 pm

The Province of Saskatchewan is projecting a \$20 mln surplus in FY2010/11, a rare drop of black ink on the provincial fiscal landscape this year. While the Province will draw \$194 mln from its reserve fund, it will also immediately begin to rein in spending growth—this differs from the other provinces that have so far chosen to postpone restraint for a year. Before transfers from the reserve fund, the deficit will sit at \$174 mln, or a very modest 0.3% of GDP. Note that the FY2009/10 surplus of \$425 mln is unchanged from the latest update, and the pre-transfer deficit is also unchanged at \$86 mln. The Province is projecting surpluses in each of the three following fiscal years, leaning on the reserve fund again in FY2011/12 before returning to pre-transfer surpluses thereafter. This will ultimately help prop up the

Growth and Financial Security Fund to \$546 mln by the end of FY2013/14, from a low of \$340 mln in FY2011/12 (for reference, the balance at the end of last fiscal year was \$1.2 bln).

Fiscal Outlook

(C\$ millions)

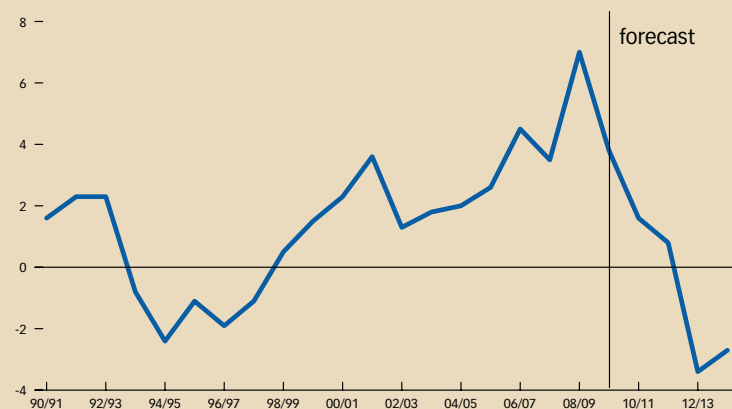
	estimate		— forecast —		
	09/10	10/11	11/12	12/13	13/14
Revenues	10,027	9,950	10,104	10,532	10,998
Spending	10,112	10,124	10,225	10,430	10,638
Pre-transfer balance	(86)	(174)	(121)	102	360
Transfer from (to) GFSF	510	194	171	(27)	(180)
Budget Balance	425	20	50	75	180
Oil (US\$/bbl)	69.78	77.50	85.50	87.75	90.50
Potash (US\$)	413	308	313	318	324

() = deficit

Source: Provincial forecasts

Real Total Spending per Capita

(4-yr. annualized % chng)



Source: Provincial forecasts (assumes 1.3% population growth)

Revenue is expected to fall a modest 0.8% to \$10.0 bln in FY2010/11, owing largely to lower dividend payments from Crown Entities. However, tax and non-renewable resource revenues will rise 1.6% and 19.5% respectively as the recovery takes root. Resource revenues will bounce back to \$2.1 bln after plunging more than 60% in the prior fiscal year as potash prices and production fell sharply. In FY2010/11, potash prices are expected to average a conservative US\$308, but sales are forecast to bounce more than 70%, reaching 2008's peak level by 2013. Meantime, oil royalties (assuming US\$77.50/bbl) will also add to growth. All told, non-renewable resources are projected to make up 21% of total revenues in FY2010/11, slightly below the 26% average seen during the last five years. While we deem the price assumptions to be realistic, particularly for potash, this remains the primary risk to Saskatchewan's projection. There are few revenue-related policy measures in this budget, but a delay of the Education Property Tax reduction will save \$53 mln.

Total spending is projected to inch up 0.1% to \$10.1 bln in FY2010/11, reflecting solid 6.4%

growth in health care, but cuts across most other ministries. For example, the size of the civil service will be reduced by 4% this year and further in future years (through attrition, not layoffs). In fact, the spending restraint already began during FY2009/10 as potash revenues were plunging—about \$130 mln was trimmed versus last year’s budget projection. Going forward, total spending growth will be held to a very modest 1.3% annually over the four-year forecast horizon, representing about a 2.7%-per year contraction on a real per-capita basis (assuming the Province’s 2.8% inflation forecast and our guess of strong 1.3% population growth). This level of restraint could be achievable given that real per-capita spending growth ran at a very fast clip during the past decade (see chart), especially as the Province responded to the recent spurt in economic growth and inward migration. But, if population and economic growth run significantly ahead of expectations, hitting these spending targets could become a challenge (of course, that would mean revenue upside as well).

The budget also provides a **\$632 mln infrastructure spending program**, down 35% from the \$976 mln spent in the prior fiscal year. Highway and transportation infrastructure will get the biggest allocation (\$302 mln), while the municipalities (\$176 mln) will also be large recipients. Education and health care infrastructure spending will see sharp cuts.

Total borrowing requirements are expected to be \$1.1 bln in FY2010/11, up from \$716 mln in FY2009/10. Crown corporations will do the bulk of the borrowing, totalling \$936 mln, while the government will take up \$132 mln. Total public debt will reach \$8.8 bln in 2011, or a modest 15% of GDP.

After stumbling last year amid a sharp decline in potash production, **the Saskatchewan economy is poised to be among the top performers in 2010**. Potash production is expected to rebound and promising resources in the southern part of the province should continue to spur growth in the oil sector. Meantime, the labour market remains tight with the unemployment rate sitting at 4.3% in February (the lowest in Canada), while inward migration flows continue to drive above-normal population growth. The Province is expecting 2.6% and 3.3% growth in 2010 and 2011, respectively, below our forecast of 3.7% and 3.8%.

The bottom line: This budget does what few others are likely to do this fiscal year—take immediate steps to rein in spending growth. That, combined with a commodity-led economic recovery, should keep Saskatchewan high on the list of Canada’s best positioned provinces.

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