

Saskatchewan Mid-Year Update: Potash Plunge Continues

The Province of Saskatchewan revised down its FY2009/10 revenue estimate for the second time this year amid lower-than-expected potash production. Revenue is now expected to be \$9.9 bln in FY2009/10, a \$229 mln (2.3%) downgrade from the Q1 update (and down \$788 mln from the original budget plan). The reduction is primarily the result of declining potash revenues, which are now pegged at just \$109 mln—that’s down from the \$1.9 bln budget forecast. Note that the Province’s 2009 price assumption is little-changed at US\$453, but lower production has taken a major toll, down 62% y/y through July. Potash revenues, projected at 18% of total revenue, were clearly the biggest risk in the Province’s FY2009/10 budget, and the decline in output has indeed had a major negative impact. Offsetting this drag somewhat are improved oil revenues and special crown corporation dividends totalling \$570 mln (including the sale of the Province’s stake in Saskferco).

Meantime, total spending is now pegged at \$10.0 bln, revised down fractionally from the prior update. Before Growth and Financial Security Fund transfers, the Province now faces a \$140 mln deficit, down from a \$50 mln surplus projected in August. As such, the Province will transfer \$564 mln from the GFSF to maintain the \$425 surplus in the General Revenue Fund.

Total borrowing requirements are now pegged at \$1.1 bln, down \$64.4 mln from the budget forecast on the back of less borrowing by crown corporations.

The Saskatchewan economy had held up much better than the rest of Canada through the downturn. However, with potash production volumes slashed, and oil & gas drilling running at less than half year-ago levels, Saskatchewan will likely see real GDP contract 2% in 2009 (the Province is forecasting a 2.9% decline). But, with the global economy on the mend, commodity demand is likely to pick up in 2010, driving stronger economic growth in Western Canada—including a 3.3% rebound in Saskatchewan.

Saskatchewan - Mid-year fiscal update

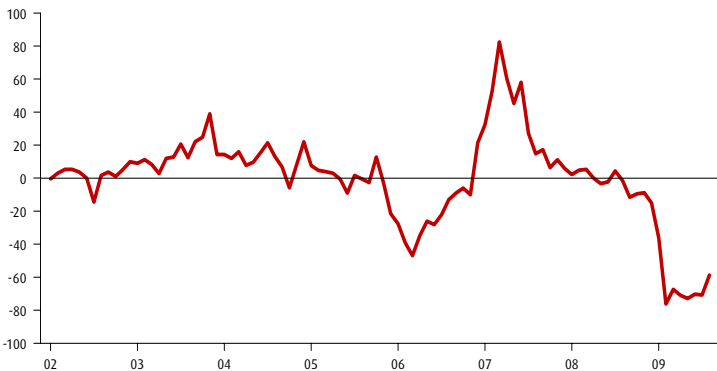
(FY2009/10, \$ millions)

	First Quarter Forecast	Mid-year Update	Change from Prior Update
Revenue	10,102	9,873	-229
Spending	10,052	10,013	-40
Pre-transfer balance	50	-140	-190
Net transfer from GFSF	375	564	190
Surplus	425	425	0

Source: Province of Saskatchewan

Potash Plunge

Canada: Real GDP, Potash Mining (y/y % chng)



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