

Saskatchewan Q1 Update: No Flood in Provincial Finances

The Province of Saskatchewan is projecting a modest improvement in its FY2010/11 fiscal position. Total revenue is now expected to be \$10.1 bln, a \$195 mln (2.0%) upgrade from the budget forecast. This is driven by a \$253 mln improvement in crown land sales, which reflects continued interest in the province's oil and gas sector. This increase offsets modest declines in royalty revenues and steady income tax receipts. Note that the Province increased its potash (13% to US\$349) and oil (1% to US\$78.23) price assumptions, but shaved natural gas (-11% to C\$3.93).

Meantime, total spending is now pegged at \$10.3 bln, revised up \$162 mln (1.6%) from the budget projection. This mostly reflects \$144 mln in unanticipated expenses related to flooding. Before Growth and Financial Security Fund transfers, the Province now faces a \$141 mln deficit (0.2% of GDP), improved from the \$174.2 mln projected in March. As such, the Province will now transfer

\$161 mln from the GFSF to maintain the \$20 mln surplus in the General Revenue Fund. Even if reserve fund transfers are ignored, Saskatchewan continues to expect the smallest deficit among the Canadian provinces in FY2010/11. Recall also that FY2009/10 ended with a better-than-expected \$168 mln pre-transfer surplus (the only province to avoid a deficit last year).

Government general debt will be \$4.14 bln at March 31st, as previously expected, while total public debt (which includes Crown Corporations) will be \$8.6 bln, a modest downward revision.

Heavy rain and flooding this spring are hindering Saskatchewan farm output. For example, Statistics Canada's latest report on crop production (released today) shows that Saskatchewan farmers estimate wheat production will be 26% below year-ago levels. The flooding has forced us to trim our 2010 real GDP forecast, but strength in other sectors should keep growth humming at a decent 2.6% clip, before returning to an above-average 4.1% rate in 2011.

Saskatchewan - Q1 fiscal update

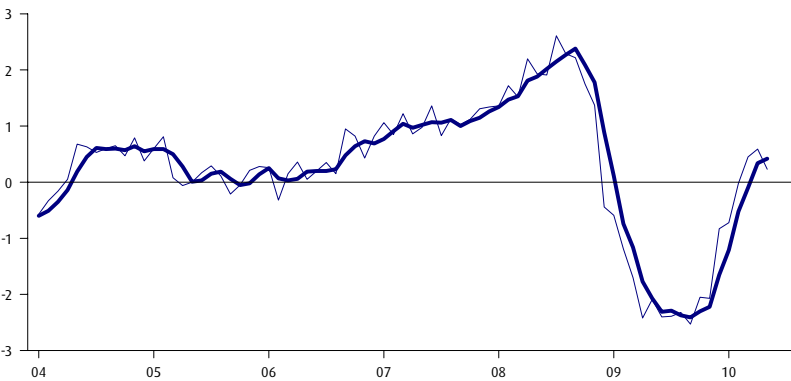
(FY2010/11, \$ millions)

	Budget Estimate	First Quarter Forecast	Change from Budget
Revenue	9,950	10,145	195
Spending	10,124	10,286	162
Pre-transfer balance	-174	-141	33
Net transfer from GFSF	194	161	-33
Surplus	20	20	0

Source: Province of Saskatchewan

Provincial Economic Momentum Index

(Dark line = 3-mo. average)



*The PEI measures the number of standard deviations economic activity is above or below trend.

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