

Saskatchewan Budget Highlights

Highlights and analysis of Saskatchewan's FY19/20 budget

March 20, 2019, 3:30 pm

Sticking to the Script

Robert Kavcic, Senior Economist • robert.kavcic@bmo.com • 416-359-8329

The Province of Saskatchewan is projecting a small \$34 million surplus for FY19/20, or negligible as a share of GDP. That is improved from the \$380 million deficit now expected for FY18/19 (slightly deeper than the mid-year update). Recall that this coming fiscal year marks the third in the government's ongoing plan to balance the books, so that promise appears on track at this point. Of course, Saskatchewan is very much at the mercy of oil prices, and recent gains in WTI and Canadian prices have helped the cause—the Province continues to forecast without a contingency, a practice that started last year. That said, the price and currency assumptions are perfectly reasonable, though not overly conservative. Net debt will dip as a share of GDP, to 14.7% in FY19/20, after rising steadily in recent years.

The only major policy change was a change to the **Potash Production Tax** (effective April 1st), which eliminates the Saskatchewan Resource Credit is for potash production, while Crown and freehold royalties will no longer be deductible in determining the base—this will contribute to a \$117 million gain in potash revenues this coming fiscal year, but the impact of this specific measure is unclear.

Total revenue is projected to rise 4.8% to \$15.0 billion in FY19/20, with resource revenues and income taxes adding to growth. A solid gain in resource revenues (up 7%) comes on the back of the \$117 million jump in potash revenues, partly the result of the above-mentioned tax change. Prices and sales are expected to nudge very modestly higher as well. Meantime, oil-related revenues are expected to hold relatively steady. WTI oil prices are expected to average \$59.75 for the fiscal year, while the light-heavy differential improves to 24.8%. The loonie is pegged at 77.2 US cents, which is probably the most conservative forecast in the plan at this point (a lower loonie brings in higher revenues).

While higher year-over-year, keep in mind that overall resource revenues (\$1.8 billion) have fallen from around \$3 billion just a few years ago. Longer term, WTI is expected to drift up gradually to just above \$70 by FY22/23, while the differential gradually narrows to 17% and the loonie moves back to 80 US cents.

Note: A \$1 drop in oil prices would cut revenues by \$15 million; a \$10 drop in potash would shave \$54 million; and a 1 cent increase in the value of the Canadian dollar would cut \$28 million.

The revenue outlook is also based on **reasonable economic growth assumptions**. Real GDP is projected to rise 1.2% in 2019 before picking up to 2.4% next year. Our call is similar at 0.9% this year, and bit more restrained at 1.3% in 2020 (but could be scaled up if oil production rebounds, as the Province is expecting). The key message



**Table 1
Fiscal Summary**

Saskatchewan (C\$ mlns, except where noted)				
	Est. 18/19	19/20	Forecast 20/21	21/22
Summary Budget				
Revenue	14,330	15,025	15,339	15,668
Expenses	14,710	14,991	15,290	15,596
Contingency	—	—	—	—
Summary Balance	(380)	34	49	72
Net Debt	12,132	12,648		
As a percent of GDP:				
Summary Balance	(0.5)	0.0		
Net Debt	14.8	14.7		
Percent of total revenue:				
Resource Revenues	11.9	12.2		
Federal Transfers	17.5	16.4		
Key assumptions:				
WTI Oil (US\$/bbl)	62.50	59.75	61.50	64.75
Potash (US\$)	211	221	225	230
Real GDP (% chng)	1.0	1.2	2.4	1.7
Nominal GDP (% chng)	3.6	2.0	3.7	3.4

**Table 2
Borrowing Requirements**

Saskatchewan (C\$ mlns)		
	18/19	19/20
Total borrowing	3,212	2,265
Operating	975	107
Saskatchewan Builds	1,500	1,300
Crown Corporations	737	858

Source: Provincial Budget () = deficit
Note: GDP figures are for calendar year (FY19/20=CY19)

here is that the economy is growing, but continues to be held back by weaker oil-sector capital investment and a retrenching residential housing sector—think inventory overhang from the prior boom, and falling home prices. Population growth, while still solid at 0.9% y/y, has slowed sharply from recent years as net interprovincial flows have turned deeply negative.

Total spending is projected to rise a modest 1.9% in FY19/20, to \$15.0 billion. The Province has kept a firm lid on operating spending, which is little changed over the past four years. Looking ahead, the Province plans to hold total spending growth at 2% per year through FY22/23, maintaining thin surpluses along the way.

Meantime, **capital spending** under the Saskatchewan Builds Capital Plan will continue to decline this year, to \$1.12 billion, down from last year's \$1.17 billion total. The program peaked at \$1.8 billion in FY16/17, and has now begun to consistently fade through the forecast horizon. Recall that Saskatchewan had a massive infrastructure shortfall between 2010 and 2015, when the economy was rollicking and population growth was running at 50-year highs. As such, the Province was racking up debt through the capital plan despite operating surpluses. That environment is now well past.

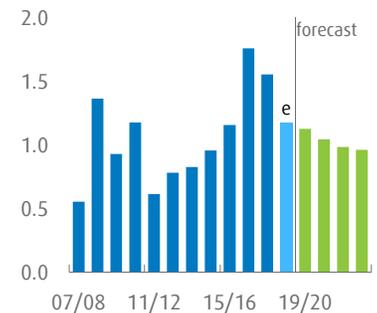
The slowly shrinking capital spending program, combined with the small operating budget surplus, will reduce borrowing requirements this fiscal year. **Total borrowing requirements** are expected to be \$2.3 billion in FY19/20, down from \$3.2 billion in FY18/19. The Saskatchewan Builds Capital Plan still accounts for a big chunk of the borrowing program (\$1.3 billion). Crown Corporations will borrow \$858 million and the remainder (\$107 million) is for refinancing operating debt. That will lift public debt above 24% of GDP, while **net debt** will dip a tick, and remains comparatively low versus its peers at 14.7% of GDP. The latter is up 8 ppts from just five years ago, and the rapid pace of increase (due to operating deficits and a swelling capital spending plan) was becoming a bit of an issue from a credit perspective—so stability on this front is welcome.

The Bottom Line: The Province of Saskatchewan has stuck to its plan to balance the books this fiscal year, and the borrowing program has slimmed alongside lower capital spending—both are positive developments from a credit perspective.

Chart 1
Capital Spending Fading

Saskatchewan (C\$ blns)

Saskatchewan Builds Capital Plan



Source: Provincial Budget e = estimate

General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site <http://economics.bmocapitalmarkets.com>. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A, BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group