

The Honourable Donna Harpauer
Minister of Finance



SASKATCHEWAN BUDGET UPDATE

18-19

ON TRACK

**FIRST QUARTER
FINANCIAL REPORT**

2018-19 First Quarter Financial Report
Government of Saskatchewan
August 27, 2018

INTRODUCTION

2018-19 First Quarter Financial Report

Through the first quarter of 2018-19, both the financial and economic outlook for the province remain on track.

The deficit is now forecast to be \$306 million, which is \$59 million smaller than the \$365 million budget deficit.

Revenue is forecast to be up \$172 million from budget, largely due to higher non-renewable resource revenue, primarily reflecting higher oil and potash prices, and an improvement in net income from Government Business Enterprises.

Expense is forecast to be up \$112 million from budget, reflecting higher pension expense as well as increases for child and family services, health services and forest fire operations.

While challenges remain in the economy, these were not unexpected. The budget forecasted a relatively modest expansion in economic activity in real terms in both 2017 and 2018, projecting growth of 1.5 per cent for 2017 and 1.3 per cent for 2018.

Although 2017 provincial economic accounts will not be available until November, a related measure of economic activity – sectoral GDP at basic prices – produced by Statistics Canada this spring, supports recovery in the economy in 2017 following two consecutive years of decline brought about by the collapse of

oil prices at the end of 2014. This return to growth in 2017 was led by the resource extraction industries, the manufacturing sector and wholesale trade.

For 2018, signs of optimism are emerging for a number of indicators, despite some sluggishness on a year-to-date basis.

Thus far, growth in manufacturing and international exports has been strong, posting rates of 11.1 per cent and 4.0 per cent, respectively.

Wholesale trade and new motor vehicle sales have posted three consecutive months of growth following declines in the early part of the year.

And, some of the key indicators remain above the levels posted in 2014, prior to the decline in oil prices.

Population continues to grow, reaching 1,171,240 as of April 1, 2018. And, average weekly earnings, retail sales and manufacturing shipments have all posted record levels during the course of 2018.

At first quarter, the 2018-19 budget remains on track.

ECONOMIC UPDATE

2018 Performance

The Saskatchewan economy has recovered from the impact of the collapse in oil prices that began in late 2014.

While the 2017 provincial economic accounts are not yet available, related data measuring economic activity at an industry level in basic prices showed significant signs of improvement in the economy last year.

According to Statistics Canada's estimates, Saskatchewan real GDP by industry (at basic prices) grew by 2.9 per cent in 2017, after two consecutive years of negative growth. It was the fifth-highest growth among provinces and just slightly below the national growth of 3.0 per cent.

Thus far, economic performance in 2018 is mixed but remains on track.

Saskatchewan's population increased by 1.0 per cent or 11,691 from 1,159,549 on April 1, 2017 to 1,171,240 on April 1, 2018.

Benefiting from strengthening oil prices, the value of oil production went up by 8.0 per cent through the first four months of 2018 over the same period last year.

The potash sector has also showed signs of strengthening, with production increasing 11.3 per cent in the first quarter of 2018 over the same period last year.

Thus far, total manufacturing sales in Saskatchewan increased by 11.1 per cent, the second-highest growth among provinces, and international exports increased by 4.0 per cent.

Average weekly earnings reached \$1,011.92 in May, 1.4 per cent above the national average.

SASKATCHEWAN ECONOMIC INDICATORS

	2014 Actual	2017 Actual	2018 Estimate*	2018 YTD	2018 (YTD) % Change	2018 (YTD) Rank
Population at April 1 (000s)	1,116.5	1,159.5	1,171.2	1,171.2	1.0	7th
Employment (000s)	570.9	567.6	565.7	566.3	(0.3)	9th
Unemployment Rate (%)*	3.8	6.3	6.4	6.4	6.4	5th lowest
Consumer Price Index (2002=100)	128.7	134.4	138.0	137.1	2.7	1st
Average Weekly Earnings (\$)	974.74	1,010.46	1,014.40	1,011.92	0.4	9th
Retail Sales (\$B)	19.2	19.6	19.6	7.6	(0.1)	8th
Wholesale Trade (\$B)	25.5	26.0	25.8	11.0	(0.9)	9th
New Motor Vehicle Sales (# of Units)	58,434	56,292	49,855	20,262	(11.4)	10th
Manufacturing Sales (\$B)	15.8	16.1	17.9	7.9	11.1	2nd
International Exports (\$B)	35.3	28.9	29.7	15.2	4.0	8th
Building Permits (\$B)	2.7	2.2	1.7	0.9	(21.5)	10th
Housing Starts (# of Units)	8,257	4,904	3,549	1,601	(26)	9th
Investment in Non-Housing Construction (\$B)	1.9	1.2	1.0	0.4	(16.7)	10th
Investment in Non-residential Building Construction (\$B)	1.8	1.7	1.6	0.8	(6.9)	8th

Source: Statistics Canada

* Estimates based on 2018 year-to-date growth and 2017 actual, except for the unemployment rate which is the year-to-date average.

** Average of the period

SASKATCHEWAN ECONOMIC INDICATORS

(Seasonally-adjusted Month-over-month Per Cent Change Unless Noted Otherwise)

	Saskatchewan					
	January	February	March	April	May	June
Employment	0.2	(0.5)	0.7	(0.9)	(0.4)	1.5
Unemployment Rate (%)	5.4	5.6	5.8	6.3	6.8	6.3
Consumer Price Index *	0.4	0.2	0.1	0.5	0.3	(0.3)
Average Weekly Earnings	(1.5)	(0.1)	(0.6)	(0.5)	0.4	--
Retail Sales	(0.5)	(0.2)	(1.6)	1.7	(0.2)	--
Wholesale Trade	(3.2)	(2.2)	2.6	0.7	9.8	--
New Motor Vehicle Sales*	(8.1)	(12.5)	42.3	7.5	8.4	--
Manufacturing Sales	4.3	(1.4)	4.8	6.5	5.5	--
International Exports*	6.6	(20.5)	26.2	1.7	2.4	0.1
Building Permits	(20.2)	(30.8)	22.1	25.8	(22.6)	(29.2)
Housing Starts (Quarterly)*	--	--	(36.4)	--	--	10.4
Investment in New Housing Construction*	(8.6)	(1.9)	(9.1)	0.6	(5.2)	--
Investment in Non-residential Building Construction (Quarterly)	--	--	(3.4)	--	--	0.9

Source: Statistics Canada

* Seasonally-unadjusted data where seasonally adjusted data is not available

Wholesale trade and new motor vehicle sales posted three consecutive months of growth following declines in the early part of the year.

And, retail sales and wholesale trade are above the levels posted in 2014, prior to the decline in oil prices.

The private sector is currently forecasting an average of 1.8 per cent growth for 2018 and an average of 2.1 per cent growth for 2019.

Challenges remain in the near-term from both internal and external factors, including weak employment growth, the indefinite shutdown of the McArthur River uranium mine, the potential impact of a carbon tax, rising interest rates and intensifying protectionism with a corresponding surge in global trade disputes.

PRIVATE SECTOR REAL GDP FORECASTS FOR SASKATCHEWAN*

(Per Cent Change)

	2018	2019	Cumulative Growth	Release Date
IHS Global Insight	1.9	2.0	3.9	Jul 2018
Conference Board of Canada	1.2	2.3	3.5	Aug 2018
The Centre for Spatial Economics	2.0	2.0	4.0	Feb 2018
TD Bank	1.6	1.8	3.4	Jun 2018
RBC	2.4	2.8	5.3	Jun 2018
Bank of Montreal	1.5	1.9	3.4	Aug 2018
CIBC	2.1	1.8	3.9	Jul 2018
Scotiabank	1.6	2.0	3.6	Jul 2018
National Bank	1.5	2.5	4.0	May 2018
Laurentian Bank	2.2	1.9	4.1	Feb 2018
Average of Private Sector Forecasts	1.8	2.1	3.9	
2018-19 Budget	1.3	2.5	3.8	

* As of August 9, 2018.

2018-19 BUDGET UPDATE

First Quarter

OVERVIEW

At first quarter, a deficit of \$306.1 million is forecast – an improvement of \$59.2 million from budget.

Total revenue is forecast to increase \$171.5 million from budget while total expense is forecast to increase \$112.3 million.

2018-19 BUDGET UPDATE - FIRST QUARTER

(Millions of Dollars)	Budget	First Quarter Forecast	Change
Revenue			
Taxation	7,214.9	7,214.9	-
Non-renewable resources	1,482.1	1,617.4	135.3
Net income from government business enterprises	1,078.0	1,114.2	36.2
Other own-source revenue	2,006.5	2,006.5	-
Transfers from the federal government	2,462.0	2,462.0	-
Total Revenue	14,243.5	14,415.0	171.5
Expense			
Agriculture	770.9	770.9	-
Community development	642.6	642.6	-
Debt charges	654.6	644.0	(10.6)
Economic development	230.2	230.2	-
Education	3,263.3	3,329.2	65.9
Environment and natural resources	251.7	268.7	17.0
Health	5,765.3	5,785.3	20.0
Other	439.7	439.7	-
Protection of persons and property	689.9	689.9	-
Social services and assistance	1,381.3	1,401.3	20.0
Transportation	519.3	519.3	-
Total Expense	14,608.8	14,721.1	112.3
(Deficit)	(365.3)	(306.1)	59.2

REVENUE UPDATE

At first quarter, revenue is forecast to be \$14.4 billion, an increase of \$171.5 million (1.2 per cent) from budget.

Non-renewable resources revenue is forecast to increase \$135.3 million from budget. This increase primarily reflects the impact of higher-than-budgeted oil and potash price forecasts, partially offset by lower-than-expected uranium and Crown land sales revenue.

At first quarter, oil and natural gas revenue is forecast to increase \$105.8 million from budget. The increase is primarily due to a higher average West Texas Intermediate (WTI) oil price forecast, partially offset by a wider light-heavy oil differential.

WTI oil prices are currently forecast to average US\$68.03 per barrel in 2018-19, an increase of US\$9.85 from budget. WTI oil averaged US\$68.57 per barrel from April to the end of July.

A US\$1 per barrel change in the fiscal year average WTI oil price results in about a \$15 million change in oil revenue.

A wider light-heavy differential, related to increasing heavy oil production and lack of pipeline infrastructure, partially offsets the increase in WTI oil prices. The light-heavy differential has increased from 22.1 per cent to the current forecast of 25.7 per cent.

The value of the Canadian dollar is expected to average 78.3 U.S. cents in 2018-19, unchanged from budget. A one U.S. cent change in the fiscal year average exchange rate results in about a \$26 million change in resource revenue.

Potash royalties are forecast to increase \$53.1 million from budget, primarily due to higher average realized prices. Prices are now forecast to average US\$201 per KCl tonne (C\$420 per K₂O tonne), up from the budget assumption of US\$191 (C\$399).

2018-19 NON-RENEWABLE RESOURCES FORECAST ASSUMPTIONS

	Budget	First Quarter Forecast	Change
WTI Oil Price (US\$/barrel)	58.18	68.03	9.85
Light-Heavy Differential (% of WTI)	22.1	25.7	3.6
Well-head Oil Price (C\$/barrel) ¹	54.36	62.83	8.47
Oil Production (million barrels)	177.7	177.3	(0.4)
Potash Price (mine netback, US\$/KCl tonne) ²	191	201	10
Potash Price (mine netback, C\$/K ₂ O tonne) ²	399	420	21
Potash Sales (million K ₂ O tonnes) ²	12.6	12.7	0.1
Canadian Dollar (US cents)	78.34	78.34	-

¹ The average price per barrel of Saskatchewan light, medium and heavy oil.

² Ministry of Finance calculations derived from calendar-year forecasts.

Other non-renewable resources revenue, including uranium, coal and other minerals, is forecast to decrease \$20.8 million from budget, largely due to lower-than-budgeted uranium sales, while Crown land sales revenue is forecast to decrease \$2.8 million from budget.

Government Business Enterprise (GBE) net income is forecast to increase \$36.2 million from budget.

This increase in GBE net income reflects a \$30.6 million increase in SaskPower net income mainly due to increased Saskatchewan sales to large customers and increased exports and trading activity with Alberta; and, a \$27.9 million increase in the consolidation adjustment mainly to reflect an adjustment made in the 2017-18 Public Accounts.

These increases are partially offset by decreases of \$10.5 million and \$7.5 million, respectively, in Saskatchewan Government Insurance and Saskatchewan Auto Fund net income, primarily due to higher summer storm claims partially offset by higher investment earnings; a \$2.3 million decrease in SaskEnergy net income as a result of forecast unrealized market value adjustments on purchase and sales contracts; and, a \$2.1 million decrease in Saskatchewan Liquor and Gaming Authority net income, mainly due to lower video lottery terminal revenue.

All other categories of revenue are forecast on budget.

EXPENSE UPDATE

At first quarter, expense is forecast to be \$14.7 billion, an increase of \$112.3 million (0.8 per cent) from budget.

Pension expense, primarily for the Teachers' Superannuation Plan, is forecast to increase \$55.3 million as a result of changes in interest rates and actuarial assumptions, resulting in a \$65.9 million increase in the **Education** expense theme and a \$10.6 million decrease in the **Debt Charges** expense theme.

Health expense is forecast to increase \$20.0 million from budget due to utilization pressures across the Saskatchewan Health Authority.

Social Services and Assistance expense is forecast to increase \$20.0 million from budget, primarily due to caseload increases in child and family services at the Ministry of Social Services.

Environment and Natural Resources expense is forecast to increase \$17.0 million for forest fire operations at the Ministry of Environment as a result of this year's wildfire activity.

All other expense themes are forecast on budget.

DEBT UPDATE

The Province's debt consists of:

- Government Service Organization Debt – all debt of government entities other than government business enterprises; and,
- Government Business Enterprise Debt – amounts borrowed by self-sufficient government organizations.

Government business enterprises have the financial and operating authority to sell goods and services to individuals and organizations outside government as their principal activity.

Amounts borrowed by these entities are classified separately because they are expected to be repaid from cash flows generated by these business enterprises.

In other words, this debt has been incurred to finance the business activities of Crown corporations, and it is supported by revenue from those Crown business activities.

Public debt is comprised of:

- Gross Debt – the amount of money owed to lenders; less,
- Sinking Funds – the amount of money which has been set aside for the repayment of debt.

Public debt at March 31, 2019 is forecast to be \$118.4 million lower than budgeted, primarily due to decreased debt for government business enterprises.

2018-19 PUBLIC DEBT UPDATE - FIRST QUARTER

As at March 31

(Millions of Dollars)

	Budget	First Quarter Forecast	Change
General Revenue Fund			
- Operating	6,150.0	6,150.0	-
- Saskatchewan Builds Capital Plan	4,193.8	4,193.8	-
Other Government Service Organizations	431.3	396.7	(34.6)
Government Service Organization Debt	10,775.1	10,740.5	(34.6)
Government Business Enterprise Debt	9,259.8	9,176.0	(83.8)
Public Debt	20,034.9	19,916.5	(118.4)
Guaranteed Debt	24.5	24.5	-

2018-19 SCHEDULE OF PUBLIC DEBT**As at March 31****(Millions of Dollars)**

	Budget	First Quarter Forecast	Change
Government Service Organization Debt			
General Revenue Fund			
- Operating	6,150.0	6,150.0	-
- Saskatchewan Builds Capital Plan ¹	4,193.8	4,193.8	-
Boards of Education	166.8	166.8	-
Global Transportation Hub Authority	35.0	35.0	-
Saskatchewan Health Authority	98.3	66.9	(31.4)
Saskatchewan Housing Corporation	15.7	15.7	-
Saskatchewan Immigrant Investor Fund Inc.	22.9	22.9	-
Saskatchewan Opportunities Corporation	55.2	53.3	(1.9)
Water Security Agency	31.6	31.6	-
Other	5.8	4.5	(1.3)
Government Service Organization Debt	10,775.1	10,740.5	(34.6)
Government Business Enterprise Debt			
Municipal Financing Corporation of Saskatchewan	207.7	207.7	-
Saskatchewan Liquor and Gaming Authority	100.0	100.0	-
Saskatchewan Power Corporation	6,424.5	6,386.1	(38.4)
Saskatchewan Telecommunications Holding Corporation	1,046.2	1,046.2	-
Saskatchewan Water Corporation	87.6	82.2	(5.4)
SaskEnergy Incorporated	1,393.8	1,353.8	(40.0)
Government Business Enterprise Debt²	9,259.8	9,176.0	(83.8)
Public Debt³	20,034.9	19,916.5	(118.4)
Guaranteed Debt	24.5	24.5	-

¹ General Revenue Fund - Saskatchewan Builds Capital Plan consists of amounts borrowed by the General Revenue Fund to finance investment in infrastructure assets.

² GBE debt includes both general debt and GBE-specific debt. General debt of GBEs is the amount transferred from the General Revenue Fund to a GBE and recorded as a loan receivable in the Summary Financial Statements. GBE-specific debt is debt issued by, or specifically on behalf of, GBEs. GBE-specific debt is included in "Investment in government business enterprises" in the Summary Financial Statements.

³ Public debt is shown net of sinking funds.

2018-19 SCHEDULE OF REVENUE

(Millions of Dollars)	Budget	First Quarter Forecast	Change
Taxation			
Corporation Income	621.1	621.1	-
Fuel	546.1	546.1	-
Individual Income	2,441.2	2,441.2	-
Property	759.3	759.3	-
Provincial Sales	2,155.0	2,155.0	-
Tobacco	260.3	260.3	-
Other	431.9	431.9	-
Total Taxation	7,214.9	7,214.9	-
Non-Renewable Resources			
Crown Land Sales	63.9	61.1	(2.8)
Oil and Natural Gas	700.1	805.9	105.8
Potash	308.0	361.1	53.1
Resource Surcharge	317.3	317.3	-
Other	92.8	72.0	(20.8)
Total Non-Renewable Resources	1,482.1	1,617.4	135.3
Net Income from Government Business Enterprises			
Municipal Financing Corporation	0.8	0.8	-
Saskatchewan Auto Fund	118.0	110.5	(7.5)
Saskatchewan Gaming Corporation	23.0	23.0	-
Saskatchewan Government Insurance	60.7	50.2	(10.5)
Saskatchewan Liquor and Gaming Authority	481.4	479.3	(2.1)
Saskatchewan Power Corporation	176.7	207.3	30.6
Saskatchewan Telecommunications Holding Corporation	133.0	133.0	-
Saskatchewan Water Corporation	6.2	6.3	0.1
SaskEnergy Incorporated	68.4	66.1	(2.3)
Saskatchewan Workers' Compensation Board	15.3	15.3	-
Consolidation Adjustments	(5.5)	22.4	27.9
Total Net Income from Government Business Enterprises	1,078.0	1,114.2	36.2
Other Own-Source Revenue			
Fees	1,157.3	1,157.3	-
Insurance	288.2	288.2	-
Investment Income	95.6	95.6	-
Transfers from Other Governments	88.8	88.8	-
Miscellaneous	376.6	376.6	-
Total Other Own-Source Revenue	2,006.5	2,006.5	-
Transfers from the Federal Government			
Canada Health Transfer	1,202.4	1,202.4	-
Canada Social Transfer	441.3	441.3	-
Other	818.3	818.3	-
Total Transfers from the Federal Government	2,462.0	2,462.0	-
Total Revenue	14,243.5	14,415.0	171.5

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