

SIPP Provincial Progress Report



Overview of the Saskatchewan Economy

By Jim Marshall

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SIPP'S PROVINCIAL PROGRESS REPORT

The Saskatchewan Institute of Public Policy promotes and fosters informed debate on issues of importance to the people of Saskatchewan. Our goal is to actively engage the people of Saskatchewan in the shaping of public policy through information and a forum for dialogue.

To further this objective, SIPP is producing a new series of occasional papers intended to provide basic, factual information on economic and social conditions in Saskatchewan. It is our intent to provide relevant information in a world and national context to assist citizens in their understanding and assessment of current issues within the province.

The information provided is drawn from accepted, objective external sources and compiled to provide a broad overview within the subject areas without drawing conclusions with respect to policy directions.

Overview of the Saskatchewan Economy by Jim Marshall is the first quarterly report in the SIPP Provincial Progress Report series.

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(Left to right) Photos one and two are courtesy of Neil Douglas, photo three is courtesy of Don Hall, Audio Visual Services, University of Regina.

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CHAPTER 1: INTRODUCTION

From coffee row to the halls of the Legislative Building, the economy is a matter of great discussion in Saskatchewan. The economy affects peoples' daily lives, their incomes, their standard of living, the way they earn their living and the way they spend their time every day.

To governments, the state of the economy is a key consideration in much of their policy formulation. Economic activity is the source of government tax revenue. The condition of the economy may also determine the nature and types of demands on government services. For example, in times of strong economic growth, there tends to be higher demands on government for infrastructure development in streets and roads, sewer and water systems as well as community infrastructure such as schools and other public facilities. In times of economic slowdown, there may be greater need for government income support and other forms of social assistance.

Understandably, there is much interest in the state of the economy and a positive and informed debate on policy issues can be well served by a wider and deeper understanding of economic conditions in Saskatchewan. The Saskatchewan Institute of Public Policy supports informed policy debate in Saskatchewan on a wide variety of public policy issues, many of which are driven by or at least affected by economic conditions in the province. In support of this informed debate, the Institute has compiled, from published materials, an overview of the latest data on the Saskatchewan economy.

It is often difficult to understand an economy from within. Any particular level of economic performance may have little meaning except when viewed relative to the performance of other economies with which we are familiar.

This overview first establishes the context for the Saskatchewan economy within the world in terms of how Canada's economic performance compares with other countries with whom we trade and compete in world markets.

The overview will then examine Saskatchewan's economy as compared to other Canadian provinces and other periods of time. Economic data are sometimes difficult to fathom on their own and the placement of Saskatchewan's performance within national and historical contexts may help to illustrate the strengths and weaknesses within the province's economy.

Readers may find this material raises more questions than it answers. These are not simple issues, but the first steps in understanding are ahead. This report provides basic, factual information on conditions in the province drawn from accepted, objective external sources and compiled to provide a broad overview to allow readers to draw their own conclusions with respect to possible policy directions.

The economy matters to people in the way it affects their daily lives.... We can gain an overall appreciation for Saskatchewan's place in the world by looking at Canada's performance in a world context.

CHAPTER 2: CANADA IN A WORLD CONTEXT

Many of the data presented on Saskatchewan's economy in later chapters will be compared to the performance of the broader Canadian economy. But, to understand even that broader context, it is important to understand how the Canadian economy has been faring relative to other economies in the world.

If Saskatchewan is doing well as compared to the rest of Canada, for example, that may mean a very good performance for the Saskatchewan economy if Canadian performance has also outpaced the rest of the world. On the other hand, if the Canadian economy is performing below the average of other countries, a poor performance for Saskatchewan may appear fairly good within the Canadian economy when it would pale when compared to the rest of the world.

Unfortunately, it is very difficult to find consistent, comparable data for other countries in the world. There are many different measures of economic performance and not all economies focus on the same data when describing their own performance. As well, there are many economies where data are not routinely collected or are not collected in a manner which would ensure their comparability. Canada is well known for the volume and quality of data collected by agencies such as Statistics Canada, but data which are readily available on the performance of Canadian economy are rarely available on an equivalent basis for other world economies.

While this may limit our ability to examine Saskatchewan within a world context in many dimensions, we can gain an overall appreciation for Saskatchewan's place in the world by looking at Canada's performance in a world context or at least in the context of other countries which routinely collect comparable national economic data.

Economic Growth Rates

Some comparable economic data are available through the Organization for Economic Cooperation and Development (OECD), an international organization of 30 developed nations that, among other things, maintains data on the performance of its member nations.

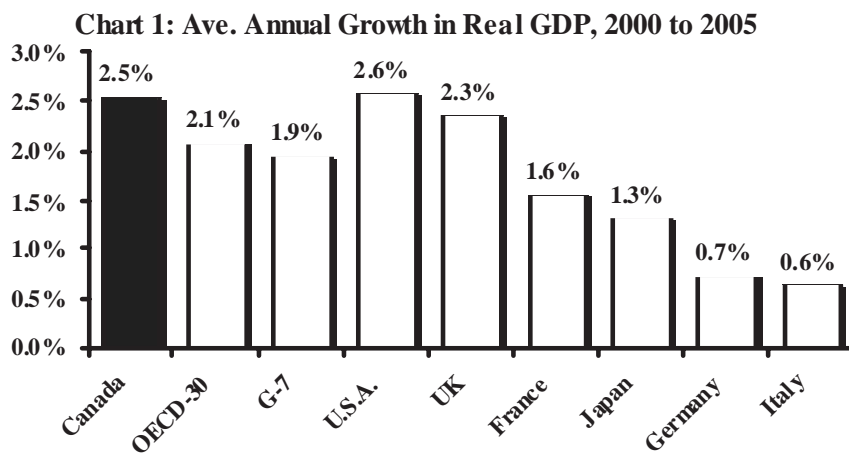
In addition to the other work the OECD does in economic development, the maintenance of consistent data comparisons among member nations supports the development of informed policies within the member nations.

One key indicator of economic performance is the Gross Domestic Product (GDP) of countries. GDP is a measure of the total value of economic output produced within an economy and is usually measured in local currency (in Canada, the Canadian dollar). But, a rising GDP could result from nothing more than rising prices, confusing inflation in prices with real growth in output. To correct for this possibility, and especially to allow for consistent comparisons of real growth over time, the GDP data are often divided by inflation rates (deflated) to find the growth in the volume of

output as opposed to the value of output. This deflated GDP is generally referred to as “Real GDP” because, if Real GDP is growing, it is due to growth in the volume of things produced, not just in their prices.

As noted, GDP is measured in local currencies, making international comparisons difficult. To correct for this, economies are often compared based on the rate of change in their Real GDP, or, in other words, in terms of their rate of growth. In this case, an economy growing at 3 per cent can be compared to an economy growing at 2 per cent, even if their output is measured in different currencies.

Chart 1, below, compares the average rate of growth in Real GDP in Canada for the five years between 2000 and 2005 with growth rates in other countries. For example, Canada averaged 2.5 per cent real economic growth over the period while in the 30 OECD countries real economic growth averaged only 2.1 per cent from 2000 to 2005.



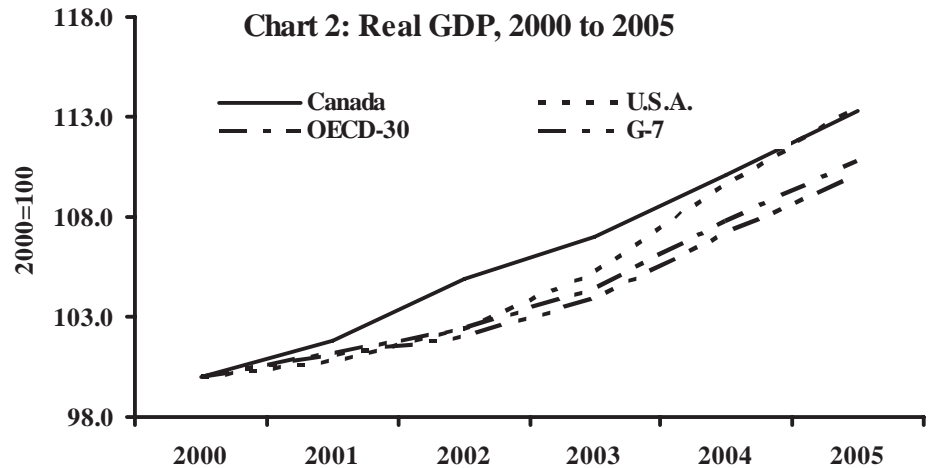
The other so called Group of Seven or “G-7” countries are also shown in Chart 1, indicating that Canada outperformed the G-7 average growth of 1.9 per cent and outperformed all of the other G-7 countries with the sole exception of the United States of America, where growth averaged 2.6 per cent from 2000 to 2005.

This comparison illustrates how economic conditions in Canada have fared relative to other key countries in the world. Canada’s real output has increased significantly in the past five years, especially when it is noted that Canada’s average growth rate is nearly twice the growth rate in Japan, more than three and a half times the growth rate in Germany and over four times the growth rate in Italy. When higher growth rates are sustained for several years, the output of countries can diverge significantly in a fairly short period.

Canada’s real output has increased significantly in the past five years, especially when it is noted that Canada’s average growth rate is nearly twice the growth rate in Japan, more than three and a half times the growth rate in Germany and over four times the growth rate in Italy.

Cumulative Growth

Chart 2 compares the effects of cumulative growth rates over the past five years. In this case, the chart examines Real GDP in any given year for any given country with that country's output level in 2000.



Source: OECD, *Main Economic Indicators*, Spring, 2006, p. 267.

This chart illustrates that Canada has consistently led in growth in output among the developed countries from 2000 to 2005. In 2005, Canada's Real GDP was 13.3 per cent above 2000 levels. While the cumulative growth in the U.S.A., at 13.5 per cent, was slightly higher than Canada's in 2005, the cumulative growth in Canada had exceeded that in the U.S.A. in every year prior to 2005.

From 2000 to 2005, Canada's Real GDP grew 23.1 per cent more than the average growth in the 30 OECD countries and 31.6 per cent more than the total growth in the G-7 countries.

While Canada's average annual growth was only 0.4 percentage points higher than the OECD average from 2000 to 2005, by 2005, Canada's cumulative GDP growth was 13.3 per cent and the OECD's cumulative GDP growth was only 10.8 per cent. Canada's cumulative 13.3 per cent growth in real output also compares very favourably with the total for the G-7 which grew by only 10.1 percentage points from 2000 to 2005.

This chart illustrates how a fairly small difference in annual growth rates can quickly compound into major growth advantages as compared to other economies. From 2000 to 2005, Canada's Real GDP grew 23.1 per cent more than the average growth in the 30 OECD countries and 31.6 per cent more than the total growth in the G-7 countries.

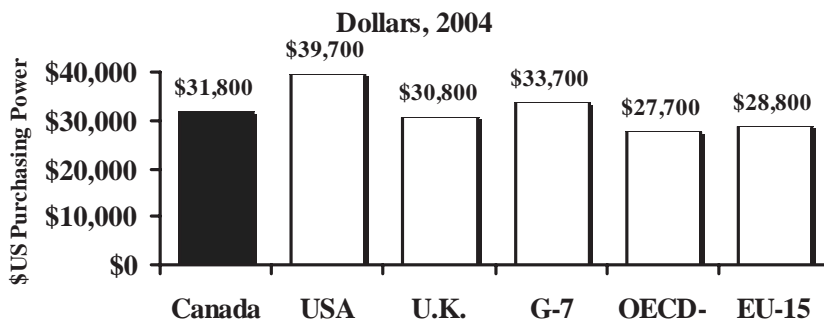
Economic Activity Levels

Of course, these data refer to growth rates over a period of time and can be affected by the start and end points in making comparisons. Additional perspective on economic performance can be gained by examining levels of output (GDP) as well as changes in levels of output (growth in GDP) as seen in Chart 2.

The OECD also produces data on GDP levels in various countries. To make these data comparable between countries, they are expressed in terms of GDP relative to population, or in *per capita* terms. In addition, the data are adjusted to a common currency (in this case, U.S. dollars) and also adjusted to take into account the fact that exchange rates do not necessarily reflect the actual purchasing power of currencies at any point in time. This adjustment is referred to as “purchasing power parity (PPP)” wherein each country’s GDP is measured in terms of what the value of that GDP would purchase in the U.S.A.

Chart 3, below, provides some selected comparisons from this OECD data set, illustrating that, for example, in 2004, Canada’s GDP *per capita* stood at \$31,800 in US dollars on a PPP equivalent basis as compared to a level of \$39,700 in the U.S.A.. Canada’s *per capita* GDP was also slightly below the \$33,700 level of the average of the G-7 countries. In fact, Canada stood in second place within the G-7 in terms of GDP *per capita*, surpassed only by the U.S.A. As compared with other countries, Canada’s output levels fare quite well.

Chart 3: Comparison of GDP per capita in Current Dollars, 2004



Source: OECD, *National Accounts of OECD Countries, Main Aggregates*, Volume 1, March, 2006.

The *per capita* GDP in Canada in 2004 was already about \$1,000 (or 3.2 per cent) higher than that in the United Kingdom; \$3,000 (or 10.4 per cent) higher than the average for members of the European Union; and, \$4,100 (or 14.8 per cent) higher than the average for the 30 OECD countries combined.

It is also noteworthy that these data are based on 2004 data. Since Canada’s 2005 growth in output also exceeded the growth in all these comparison jurisdictions with the exception of the U.S.A., one would expect further enhanced comparisons in Canada’s favour when 2005 data become available.

Canada’s growth has outperformed many other developed countries in the past five years and Canada’s level of output also compares favourably to most other countries.

Notably, then, Canada's growth has outperformed many other developed countries in the past five years and Canada's level of output also compares favourably to most other countries by the end of the period.

Outlook for Canada

Some other data have also made favourable comparisons of Canada's performance. In a recent issue of *The Economist*, the Economist Intelligence Unit ranked Canada's "business environment" as third best out of 82 economies, behind only Denmark and Finland and just ahead of Singapore in 4th place¹. Canada's third place ranking compared to other recent powerhouse economies such as Ireland at 6th place, the U.S.A. at 8th place, South Korea at 26th place and China at 50th place out of 82.

The same issue of *The Economist* shows a survey of forecasting agencies that projects Canada's economic growth rate to be tied for second place among 16 developed economies in 2006, tied with Australia and Spain at a forecasted growth of 3.1 per cent, just behind the forecasted growth of 3.3 per cent for the U.S.A. and Sweden (tied in first place). For 2007, the survey projects Canada's growth rate to equal that of the U.S.A. and Sweden at 2.8 per cent, only exceeded by the projection for Australia at 3.4 per cent growth.²

Summary of Canada's Performance

In summary, several indicators suggest that Canada's economy has performed relatively well when compared to similar economies over the past five years and has achieved a very comparable level of output per person. Beyond that, the outlook for the Canadian economy for the next few years remains fairly optimistic, in the eyes of a number of forecasting agencies. This survey of the performance of the larger Canadian economy will provide a benchmark for a closer examination of the Saskatchewan economy in the following chapters.

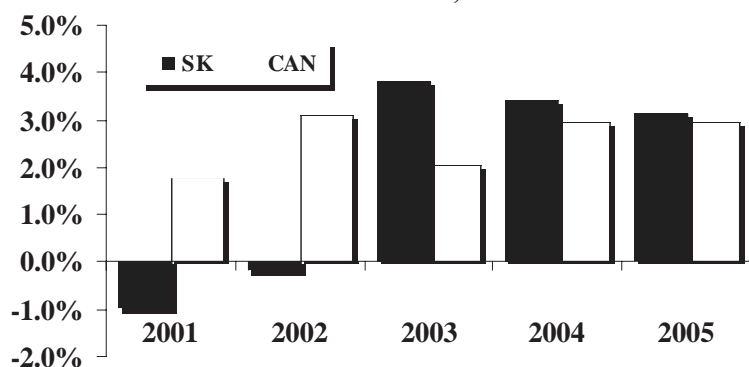
CHAPTER 3: SASKATCHEWAN – PROVINCE-WIDE INDICATORS

Chapter 2 placed Canada's performance within a world context to help us understand Saskatchewan's performance, especially as compared to Canada's overall performance. The recent release of new Statistics Canada economic data for the provinces³ allows Saskatchewan's position within Canada to be examined in more detail.

Economic Growth

As with the international comparisons in Chapter 2, the growth in the Saskatchewan economy can be compared with the rates of growth in other Canadian provinces in several ways. To try to eliminate the effects of price changes on growth, the first examination will look at the rate of growth in Real GDP, as in Chart 4, below, which compares Saskatchewan's real economic growth in percentage terms with that of Canada for each of the five years from 2000 to 2005.

Chart 4: Annual Growth in Real GDP, Canada and Saskatchewan, 2000 to 2005



Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

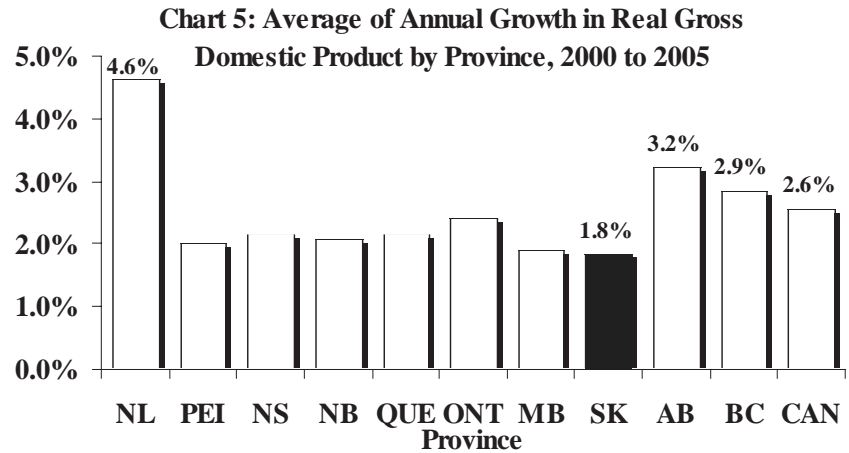
The chart shows that the Saskatchewan economy's rate of growth was actually negative in real terms in 2001 and 2002, as Saskatchewan's volume of production fell by 1.0 per cent and 0.2 per cent, respectively, in those two years while the national real output increased by 1.8 per cent in 2001 and 3.1 per cent in 2002.

However, Saskatchewan's economy rebounded significantly in each of the next three years as output volumes grew by 3.8 per cent in Saskatchewan as compared to only 2.0 per cent for Canada in 2003. In 2004 and 2005, Saskatchewan's real economic activity increased by 3.4 per cent and then 3.2 per cent more, respectively, as compared to national growth rates of 2.9 per cent in each of those years.

Overall, the two bad years for Saskatchewan, 2001 and 2002, meant that, while Canada's economic output grew by 13.4 per cent from 2000 to 2005, Saskatchewan's total growth in the five years was 9.5 per cent in real terms.

In 2004 and 2005, Saskatchewan's real economic activity increased by 3.4 per cent and then 3.2 per cent more.

This is especially apparent when comparisons are made with other provinces within Canada. Chart 5, below, compares the overall average of annual growth rates in Real GDP from 2000 to 2005 (the last five years) for Saskatchewan with the growth rates in the other provincial economies in the same period.

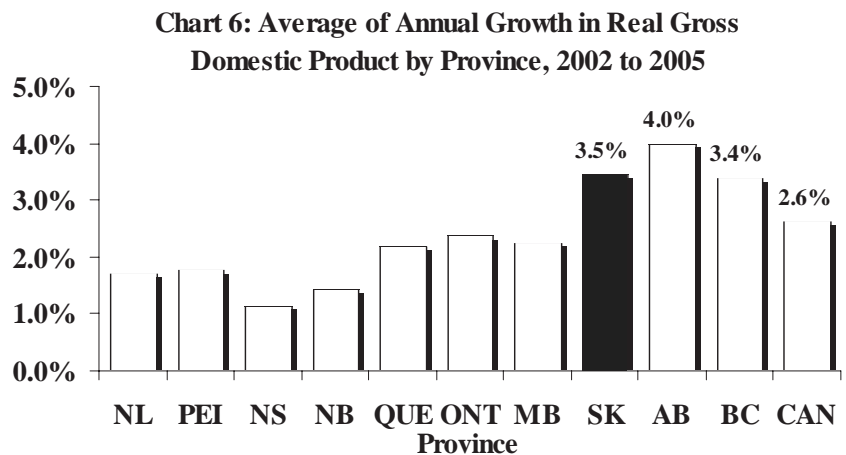


Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

In this case, Saskatchewan's average growth rate of 1.8 per cent per year was far below the national average rate of 2.6 per cent per year and the lowest in Canada. All provincial economies experienced average growth rates between 1.8 per cent and 2.4 per cent over this 5-year period, except those of Newfoundland (4.6 per cent average), Alberta (3.2 per cent average) and British Columbia (2.9 per cent average).

From 2002 to 2005, the Saskatchewan economy's output grew by an average of 3.5 per cent per year in real terms.

However, the picture looks considerably brighter if the bad years of 2001 and 2002 are dropped from the comparisons. Chart 6, compares the average of annual growth in Real GDP from 2002 to 2005 (the last three years) for all the provincial economies. In this case, the growth in the Saskatchewan economy compares more favourably with other jurisdictions in Canada.

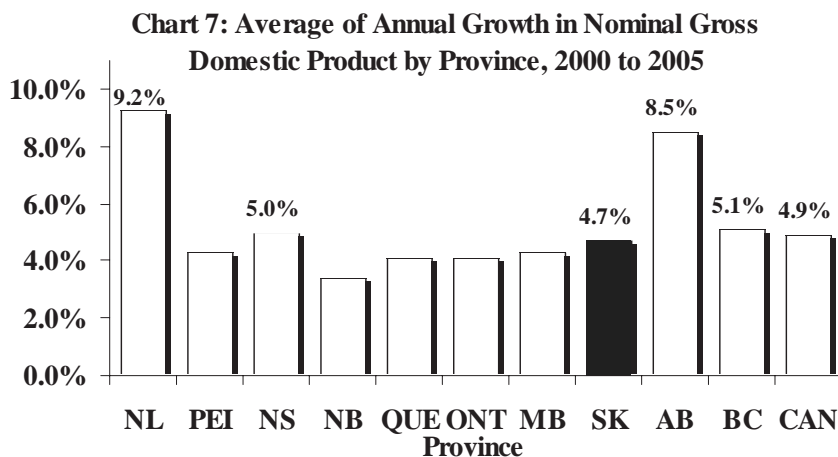


Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

From 2002 to 2005, the Saskatchewan economy’s output grew by an average of 3.5 per cent per year in real terms. The growth rates were actually 3.8 per cent, 3.4 per cent and 3.2 per cent in real terms in 2003, 2004 and 2005, respectively. Saskatchewan’s real growth rate was higher than the average 2.6 per cent real growth per year in the overall Canadian economy and only the Alberta economy, with average annual growth of 4.0 per cent, exceeded Saskatchewan’s growth over the past three years. British Columbia came a close third in average growth, averaging 3.4 per cent per year from 2002 to 2005.

The Value of Output

While it is common to compare economies in terms of the rate of growth in the volume of output by examining Real GDP, there is also value in considering the rate of growth in the value of output within the economy. When growth in volume of output is combined with price changes (usually increases), “Nominal GDP” or the GDP in “Current Dollars” is obtained. This indicator reflects changes in the value of the output of an economy in terms of what is paid for the products of economic activity. Chart 7, below, examines the average annual growth rate in Nominal GDP for the provinces and Canada from 2000 to 2005.

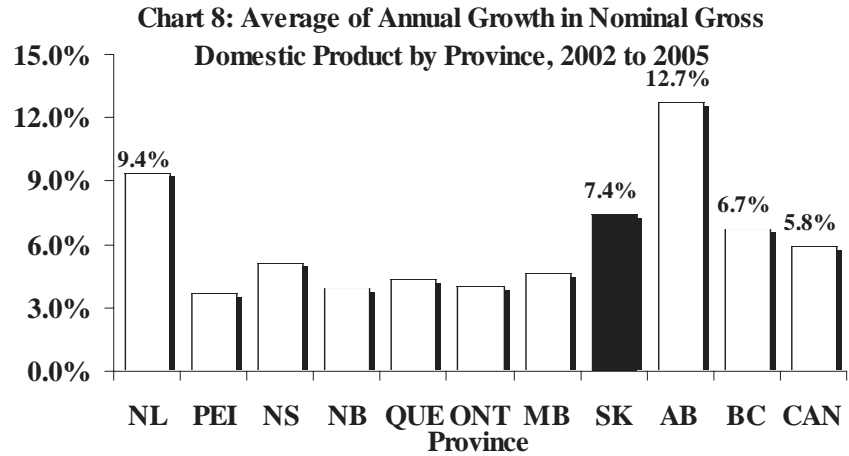


Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

The Chart illustrates that Saskatchewan’s Nominal GDP increased by an average of 4.7 per cent per year from 2000 to 2005, slightly below the national average of 4.9 per cent per year for the same period. Four other provinces, Newfoundland (at an average growth of 9.2 per cent), Alberta (at 8.5 per cent on average), British Columbia (at 5.1 per cent) and Nova Scotia (at 5.0 per cent) all exceeded the national average per annum growth rate of 4.9 per cent over this five-year period.

As was the case with the real GDP data above, examining the growth in Nominal GDP growth over the past three years provides a different perspective on recent growth in

Canadian economies. Chart 8, below, illustrates the average annual rate of growth in Nominal GDP for each of the provincial economies and the national rate, for comparison, over the past three years.



Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

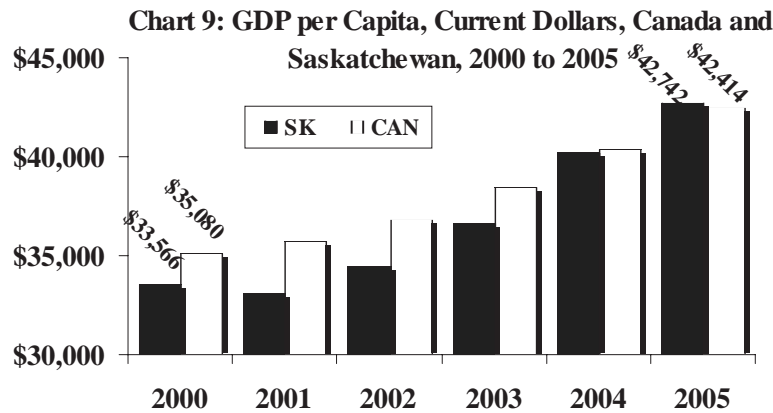
From this perspective, Saskatchewan's average annual growth rate in Nominal GDP averaged 7.4 per cent per year between 2002 and 2005, significantly exceeding the national growth rate which averaged 5.8 per cent per year for the same period. Alberta (at an average growth of 12.7 per cent per year) and Newfoundland (at a rate of 9.4 per cent) exceeded Saskatchewan's average growth rate and only British Columbia (at 6.7 per cent growth) also exceeded the national average growth rate.

Saskatchewan's average annual growth rate in Nominal GDP averaged 7.4 per cent per year between 2002 and 2005, significantly exceeding the national growth rate which averaged 5.8 per cent per year for the same period.

By comparing the growth rates in Real GDP and Nominal GDP, it is clear that Saskatchewan's volume of production has increased over the past five years and, especially, over the past three years. The increase in the value of production as shown by Nominal GDP growth has been even greater than the rate of growth in Real GDP and by a greater factor for Saskatchewan than for most other provinces, to the point where Saskatchewan's Nominal GDP has expanded at a rate near or above the national rate over the past five years.

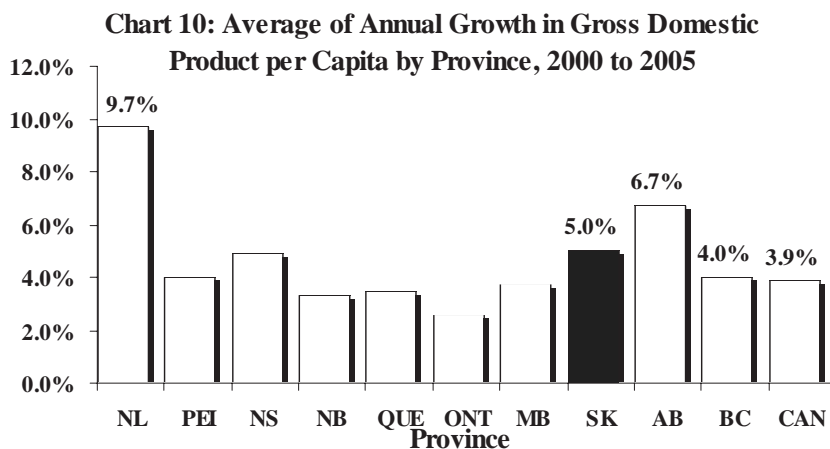
Output per Person

The data above illustrate the rates of *growth* in economic output but do not provide insight into how the *levels* of output compare among Canadian jurisdictions. Since the total value of output in an economy must support the population of that economy, comparisons in level of output can only be readily accomplished by comparisons on a per person, or *per capita*, basis. Chart 9, compares Saskatchewan's Nominal GDP *per capita* to the Canadian economy as a whole, in each of the years from 2000 to 2005.



Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

From Chart 9, it can be seen that Saskatchewan's GDP *per capita* was about \$33,600 in 2000, or at about 95.7% of the national GDP *per capita* of about \$35,000. Over the course of the next five years, Saskatchewan's output *per capita* caught up with and surpassed the national output level such that, by 2005, Saskatchewan's GDP *per capita* stood at about \$42,700 per person, above the national GDP *per capita* of about \$42,400. This progress in the per person output value in Saskatchewan can also be seen in comparison to the other provincial economies as shown in Chart 10, below.



Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

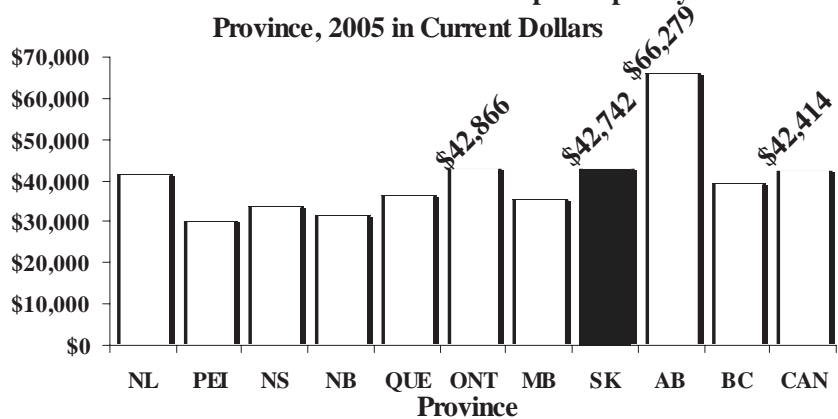
By 2005, Saskatchewan's GDP per capita stood at about \$42,700 per person, above the national GDP per capita of about \$42,400.

In this case, Saskatchewan's output per person averaged an annual growth rate of 5.0 per cent per year from 2000 to 2005 as compared to the national growth rate of 3.9 per cent per year, explaining the catching up seen in Chart 9, above. While the growth in output per person exceeded Saskatchewan's in Newfoundland (at 9.7 per cent per year) and Alberta (at 6.7 per cent per year), only British Columbia also exceeded the national growth over the five years.

Again, this speaks to the rate of growth in *per capita* GDP without reference to the levels of output that this represents either at the beginning or end of the period. Chart 11 shows the Nominal GDP *per capita* in each of the provinces in 2005 as compared to the national average.

These data reveal that, in 2005, Saskatchewan had the third highest level of output *per capita* in Canada at an average of over \$42,700 per person, and, as we saw earlier in Chart 9, surpassed the national average level of \$42,400 per person. Only Alberta (at an output value of about \$66,300 per person) and Ontario (at just under \$42,900 per person) had higher output levels than Saskatchewan in 2005.

Chart 11: Gross Domestic Product per Capita by Province, 2005 in Current Dollars



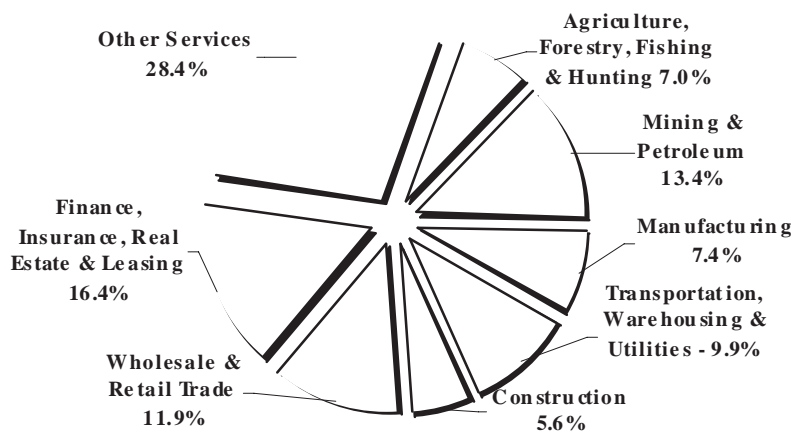
Source: Statistics Canada, Catalogue no. 13-016-XIE, 2005 Preliminary Estimates.

Composition of the Saskatchewan Economy

In 2005, Agriculture, Forestry, Fishing and Hunting made up 7.0 per cent of the economic activity of the province. Manufacturing represented 7.4 per cent of economic activity and Mining and Petroleum represented 13.4 per cent of activity.

As many will be surprised to learn that Saskatchewan's output per person is now the third highest in Canada, there may also be some surprising information revealed in the composition of the Saskatchewan economy as shown in Chart 12, which illustrates the shares of economic activity for 2005.

Chart 12: Saskatchewan Real GDP by Industry, 2005



Source: Statistics Canada, Preliminary Provincial GDP by Industry.

In 2005, the traditional sector of Agriculture, Forestry, Fishing and Hunting made up 7.0 per cent of the economic activity of the province. While this sector remains important to the provincial economy, it is also important to note that, in the same year, Manufacturing represented 7.4 per cent of economic activity and Mining and Petroleum represented 13.4 per cent of activity.

From another perspective, the “Service Producing” sectors (on the left side of Chart 12) of the Saskatchewan economy represented 66.6 per cent of all activity in 2005, as compared to the remaining 33.4 per cent of activity in the “Goods Producing” sectors (on the right side of Chart 12).

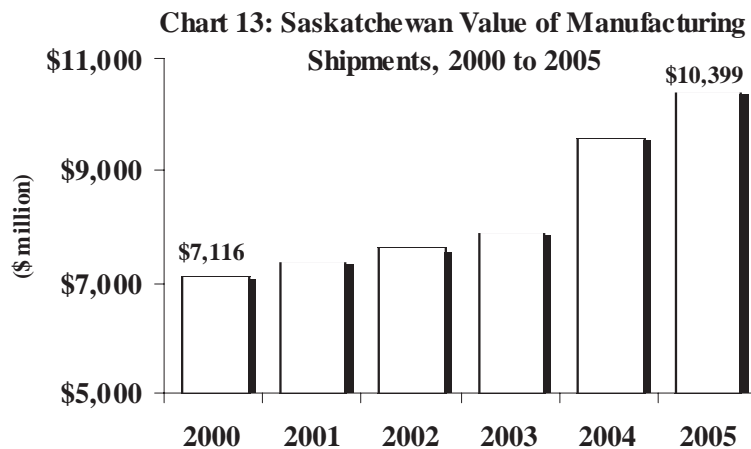
The following chapters will examine some of the more focused data on the Saskatchewan economy and help to illustrate the growing importance of the non-agricultural sectors of the economy and the gradual move from a goods-based economy towards the service-based economy it has become.

CHAPTER 4: SASKATCHEWAN - BUSINESS AND INDUSTRY

As the Saskatchewan economy has matured through the growth of the service sector and through diversification of the goods-producing sector into secondary goods production the complexity of the economy has also increased. It is important to examine a variety of standard business indicators to understand the Saskatchewan economy.

Manufacturing

As noted in Chapter 3, in 2005 manufacturing formed 7.4 per cent of the province's GDP at basic prices. The evolution and development of the Saskatchewan manufacturing sector is illustrated in Chart 13, below, which shows the value of manufacturing shipments in the province over the past five years.



Source: Statistics Canada, *Manufacturing Industries of Canada*, Catalogue no. 31-203.

Growth in the manufacturing sector can be seen in the 46.1 per cent increase in shipments between 2000 and 2005.

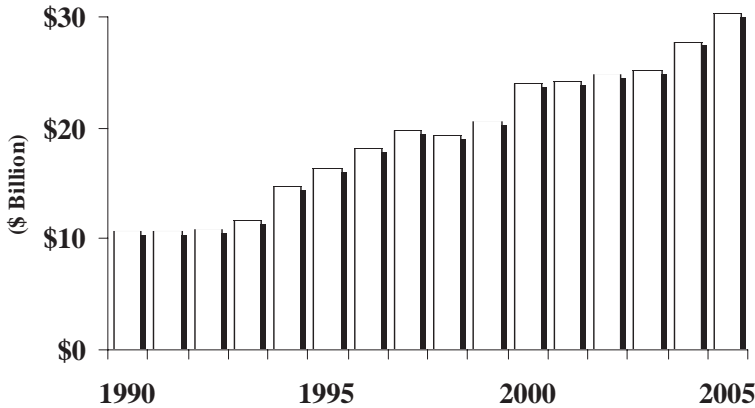
The growth in the manufacturing sector can be seen in the 46.1 per cent increase in shipments between 2000 and 2005, as the value of shipments increased from \$7.1 billion in 2000 to about \$10.4 billion in 2005. Growth has been especially strong in the most recent years as shipments increased by 21.8 per cent in 2004 and by 8.2 per cent more in 2005.

The value of manufacturing shipments in the province has more than doubled in the past ten years from a 1995 level of \$4.8 billion to the 2005 level of \$10.4 billion⁴ indicating that there has been a longer-term trend towards increased manufacturing activity within the province.

Exports

Saskatchewan has always been a major exporter of goods and services and this tradition is illustrated in Chart 14, below, which shows the level of export activity from the province since 1990. Since the value of exports in current dollars has the advantage of reflecting the prices the world is prepared to pay for our commodities, these data are expressed in current dollars, as opposed to in “Real” terms.

Chart 14: Value of Saskatchewan Exports, 1990 to 2005

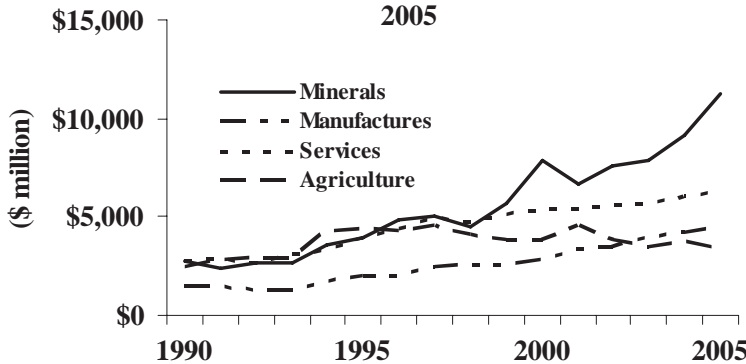


Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May, 2006.

Total exports from the province have grown from \$10.7 billion in 1990 to about \$30.4 billion in 2005. This includes all exports to the rest of Canada as well as to the rest of the world.

Some breakdown of this data is available and is shown in Chart 15, below, which compares the growth in exports by major commodity grouping: Agricultural goods, minerals, manufactured goods and services.

Chart 15: Saskatchewan Exports by Category, 1990 to 2005



Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, May, 2006 and author's calculations.

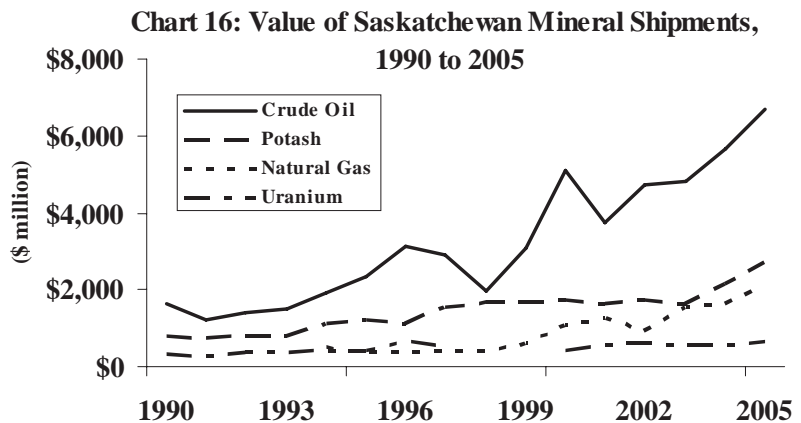
Total exports from the province have grown from \$10.7 billion in 1990 to about \$30.4 billion in 2005.

In this case, the value of mineral exports from the province has grown from about \$2.7 billion in 1990 to over \$11.2 billion by 2005. There has also been growth in service exports, from a level of \$2.8 billion in 1990 to \$6.3 billion in 2005, more than doubling in value in the 15 years. Exports of manufactured goods have also increased over this period, rising from a level of \$1.5 billion in 1990 to \$4.5 billion in 2005, an increase of 201 per cent. Agricultural products remain an important part of the province's exports activity, starting at \$2.5 billion in 1990 and rising 37 per cent higher to \$3.4 billion in 2005.

It is interesting to note that, while mineral exports and exports of services were roughly on par with agricultural exports in 1990 (between \$2.5 and \$3.0 billion each) by 2005, mineral exports were about three and one-third times the level of agricultural exports and service exports were about 86 per cent higher than agricultural exports. Also of note, manufactured goods were exported from Saskatchewan at 60 per cent of the rate of agricultural goods in 1990, but, by 2005, exports of manufactured goods were 32 per cent higher than exports of agricultural products.

Mineral Production

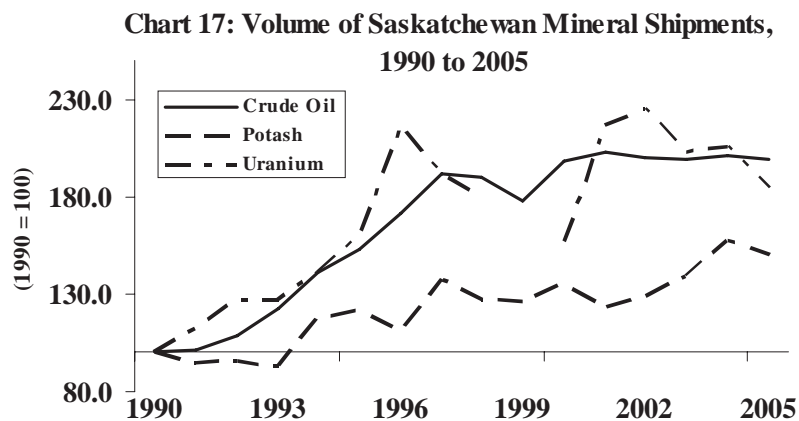
As seen above, the mineral industry has become very important to the Saskatchewan economy, led particularly by developments in the oil and gas industries. This growing importance can be seen in Chart 16, below, which shows the value of mineral shipments in Saskatchewan since 1990, presented in current dollars to reflect prices paid for these commodities.



Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, December 2005 and *Economic Review, 2005*, Number 59.

With fluctuations reflecting the variability of world prices, oil shipments in Saskatchewan have grown from a level of \$1.6 billion in 1990 to \$6.7 billion in 2005. Over the same period, potash shipments have grown from about \$800 million to \$2.7 billion and uranium shipments have grown from an annual rate of \$344 million to \$634 million in 2005⁵. Natural gas data were only revealed separately beginning in 1994 when shipments totaling \$527 million were recorded. By 2005, natural gas shipments in Saskatchewan had virtually quadrupled with shipments totaling \$2.1 billion.

As noted, the value of shipments data includes the effect of price changes and is useful in understanding what the world is prepared to pay Saskatchewan for its products. Another measure, the volume of shipments, is more suited to identifying levels of activity and is shown in Chart 17, below, which identifies volume of shipments in terms of an index linked to the 1990 shipment level. The use of an index simply allows the illustration of these commodities on a single chart.



Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, December 2005 and *Economic Review*, 2005, Number 59.

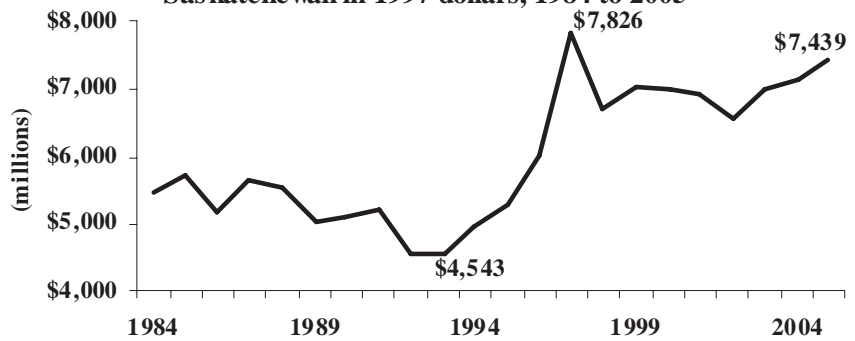
In this case, the data reveal that the volume of crude oil shipments increased fairly steadily from 1990 to 1997 when they leveled off at about 90 per cent above the 1990 level. Since then, there has been some increase in oil shipments, stabilizing around 200 per cent of 1990 levels since 2000. Uranium shipments also increased in volume terms over the period, peaking at 225 per cent of 1990 levels in 2002; in 2005, uranium shipments were about 184 per cent of their 1990 levels⁶. While potash shipments remained fairly stable throughout the early 1990s, they have shown fairly steady growth since 1993 and, in 2005, were about 50 per cent above their 1990 levels.

Business Investment

Other indicators of general business and industrial activity are available in examining levels of investment activity, especially in the formation of physical capital – the plant and equipment used in the production process. Examining such measures of investment activity provides an understanding of the extent to which future production capacity is being maintained or enhanced in the economy.

One such measure is “Gross Fixed Capital Formation”, which illustrates the construction or installation of new and repair capital plant and equipment in the course of a year. The data for Saskatchewan from 1984 to 2005 are included in Chart 18, on the next page. Since the data cover a long period of time, they are shown in “Real” (deflated) dollars to remove the effect of price increase and maintain a consistency of comparison.

Chart 18: Gross Fixed Capital Formation in Saskatchewan in 1997 dollars, 1984 to 2005



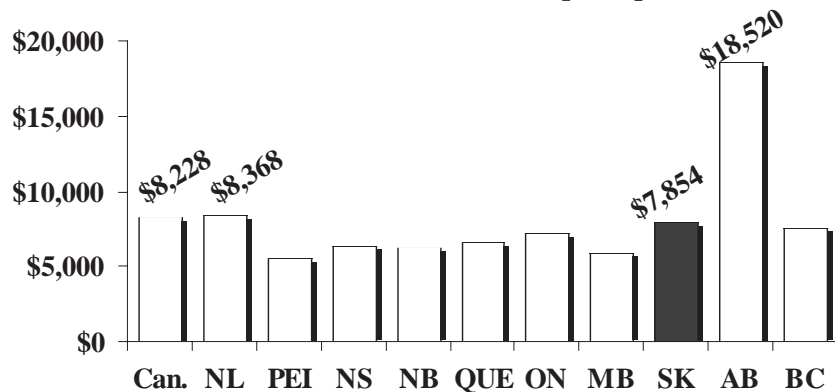
Source: Saskatchewan Bureau of Statistics, *Provincial Economic Accounts*, Dec., 2005 and Statistics Canada, *Provincial and Territorial Economic Accounts Review*, Catalogue No: 13-016-XIE.

As can be seen, Saskatchewan’s annual capital formation was fairly consistent between \$4.5 billion and \$5.5 billion from the mid-1980s to the mid-1990s, before rising abruptly to a level of \$7.8 billion in 1997. While that high level has not been repeated since, capital investment in the province has remained around \$7.0 billion per year, reaching another peak at just over \$7.4 billion in 2005.

Another Statistics Canada database tracks “Public and Private Investment” (P&PI), another measure of expenditures on the construction and purchase of new and replacement capital plant and equipment. To compare Saskatchewan with other provinces, the expenditures on P&PI for the Saskatchewan economy are shown on a *per capita* basis in Chart 19, below.

Capital investment in the province has remained around \$7.0 billion per year, reaching another peak at just over \$7.4 billion in 2005. Saskatchewan’s 2005 investment level of \$7,854 per person compares quite favourably with other Canadian jurisdictions.

Chart 19: Public and Private Investment per capita, 2005



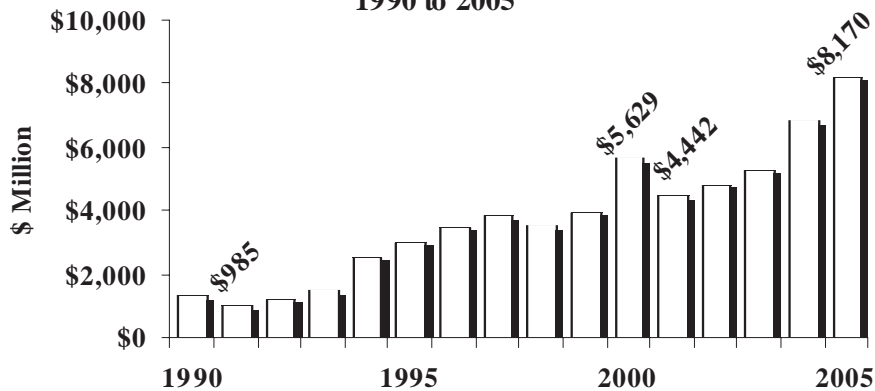
Source: Statistics Canada, Catalogue No. 61-205 and population estimates.

In this case, Saskatchewan’s 2005 investment level of \$7,854 per person compares quite favourably with other Canadian jurisdictions, exceeded only by Alberta (at about \$18,500 per person) and Newfoundland (at almost \$8,400 per person). The national average investment level of just over \$8,200 per person is heavily influenced by the high investment rate in Alberta. Only Newfoundland and Alberta have investment rates above the national average.

Corporation Profits

Statistics Canada data of Corporation Profits before Taxes are a factor included in the economic accounts for the province and indicate the general health of businesses. Chart 20, below, illustrates the corporation profit history for Saskatchewan since 1990. In this case, the data are shown in current dollars and, therefore, include the effects of inflation, but, nevertheless, provide an indication of Saskatchewan's current business climate in the context of recent history. It should also be noted that these data do not include the profits of unincorporated businesses within the province and should only be viewed as an indicator of trends in profits overall.

Chart 20: Saskatchewan Corporation Profits Before Tax, 1990 to 2005



Source: Statistics Canada, *Provincial and Territorial Accounts, Review*, Catalogue no. 13-016-XIE.

Corporation profits before taxes in Saskatchewan grew from a level of just under \$1.0 billion in 1991 to a level of \$5.6 billion in 2000. Although profit levels dropped back to \$4.4 billion in 2001, since then there has been a fairly steady increase in profitability to the 2005 level of almost \$8.2 billion. This represents an 83.9 per cent increase in corporate profits before tax in the four years between 2001 and 2005.

This represents an 83.9 per cent increase in corporate profits before tax in the four years between 2001 and 2005.

Summary of Business and Industry

This chapter has examined Saskatchewan's recent record with respect to a number of measures of business and industry activity.

There has been strong growth in production and exports, especially with respect to minerals but also in services and in manufactured goods. Investment levels in the province have been strong, compared to historical levels and compared to investment activity elsewhere in Canada. There has also been strength in profitability within the business sector in Saskatchewan, especially since 2001.

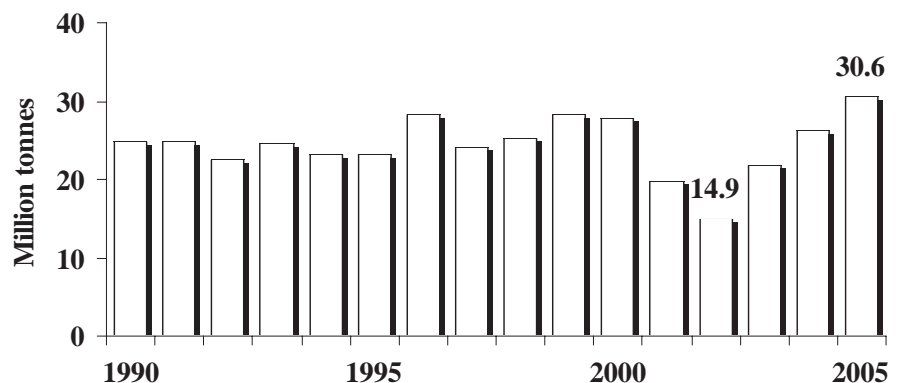
CHAPTER 5: SASKATCHEWAN - AGRICULTURE

As discussed above, agriculture remains an important part of the Saskatchewan economy. This industry has undergone many changes over the past few years and should not be viewed as monolithic, especially as diversification continues within the farm sector. Nevertheless, some general measures of farm activity are examined below to provide a very broad overview of the state of Saskatchewan's agricultural industry.

Crop Production

Saskatchewan has traditionally been involved in production of major cereal grains and has moved more into production of oil seeds, pulse crops and other specialty crops over the years. In 2005, 68.3 per cent of the volume of crop production in Saskatchewan was comprised of the “seven major grains”⁷ while another 10.7 per cent was composed of Flax and Canola and another 12.3 per cent was composed of the pulse crops of Peas, Lentils and Chick-peas⁸. Volumes of production of all crops in the province from 1990 to 2005 are illustrated in Chart 21, below.

Chart 21: Volume of Crop Production in Saskatchewan

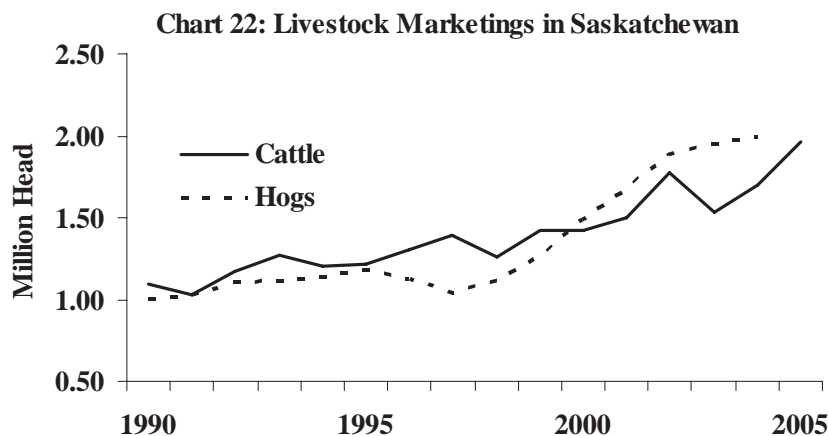


Source: Saskatchewan Agriculture and Food, *Crops - StatFact*, 10.01, 2005.12.07.

While there has been some fluctuation in crop production reflecting variability in growing conditions within the province, the past four years have been particularly volatile, with 2002 seeing the smallest crop since before 1990 at only 14.9 million tonnes and 2005 seeing the largest crop ever at 30.6 million tonnes. The average crop between 1990 and 2005 was 24.4 million tonnes; the 2002 crop was only 61 per cent of average and the 2005 crop was 125 per cent of average for the province.

Livestock

The total number of cattle (including calves) and hogs marketed in Saskatchewan since 1990 is illustrated in Chart 22, below. In this case, the province has seen a steady trend towards increased livestock production.



Source: Saskatchewan Agriculture and Food, *Livestock Marketings* and *Cattle Marketing Report*.

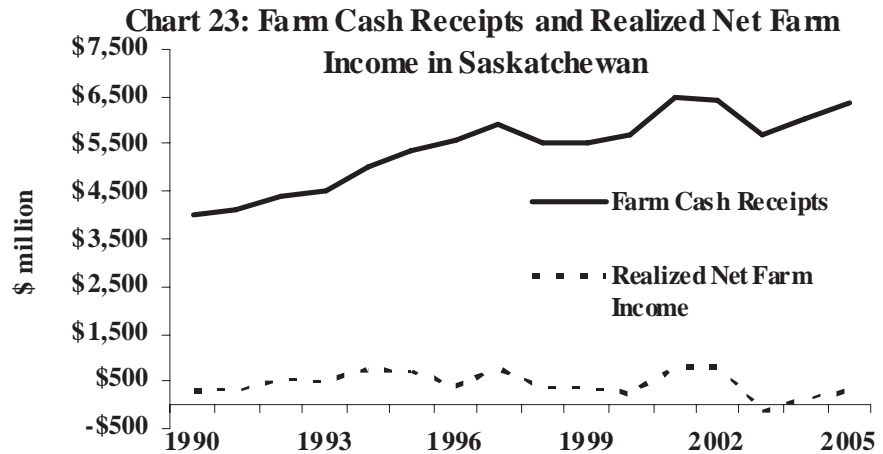
From 1990 to 2005, the number of cattle marketed in Saskatchewan increased from about 1.1 million head to almost 2.0 million head, an increase of about 80 per cent. From 1990 to 2004, the number of hogs marketed in the province grew from about 1.0 million head to 2.0 million head, an increase of 100 per cent over the 15 years. While there have been slower years, particularly notable in 2003 as exports of cattle and beef were restricted, there has been a continuing upward trend in Saskatchewan livestock production over this period.

Farm Incomes

Farm incomes reflect the trends seen above but are also affected by the prices for farm commodities and the costs of production on farms. Chart 23, on the following page, examines two standard measures of farm incomes, Farm Cash Receipts and Realized Net Farm Income.

Farm Cash Receipts consist of the proceeds from the sale of farm produce over the course of the calendar year. In this case, they are expressed in nominal terms, allowing for the inclusion of any changes in prices of farm commodities. Realized Net Farm Income is derived from Farm Cash Receipts by deducting operating expenses and depreciation on capital and equipment and allowing for inventory changes and income in kind from farm operations, and, therefore, reflects the net proceeds from farm operations on an accrual basis.

The number of cattle marketed in Saskatchewan increased from about 1.1 million head to almost 2.0 million head. The number of hogs marketed in the province grew from about 1.0 million head to 2.0 million head.



Source: Saskatchewan Bureau of Statistics, *Economic Review*, 2005 and Statistics Canada, Catalogue No.: 21-010-XIE

From Chart 23, it can be seen that there has been a general tendency towards an increase in Farm Cash Receipts which grew from about \$4.0 billion in 1990 to over \$5.9 billion in 2004, an increase of 47.5 per cent over the 15 years. But, with rising farm operating costs and increasing depreciation, there has been very little increase in Realized Net Farm Income over this period. In fact, Realized Net Farm Income for the province was -\$159 million in 2003 and \$83 million in 2004, the lowest levels over the 15 year period. Even the relatively good years of 2001 and 2002, when Realized Net Farm income reached \$788 million and \$768 million, respectively, were not substantially better than previous good years in 1997 and 1994.

With rising farm operating costs and increasing depreciation, there has been very little increase in Realized Net Farm Income over this period.

Summary of Saskatchewan Agriculture

There have been many changes in the agriculture industry in Saskatchewan with diversification in crops and movement towards increased livestock production. While farm cash receipts have increased at a fairly steady rate, increasing operating and capital cost on farms have resulted in stagnant Realized Net Farm Incomes. In 2003, in particular, these latter indicators suggest real losses from farm operations in the province, coincident with a particularly small crop in 2001 and 2002 and a smaller number of cattle marketed in 2003.

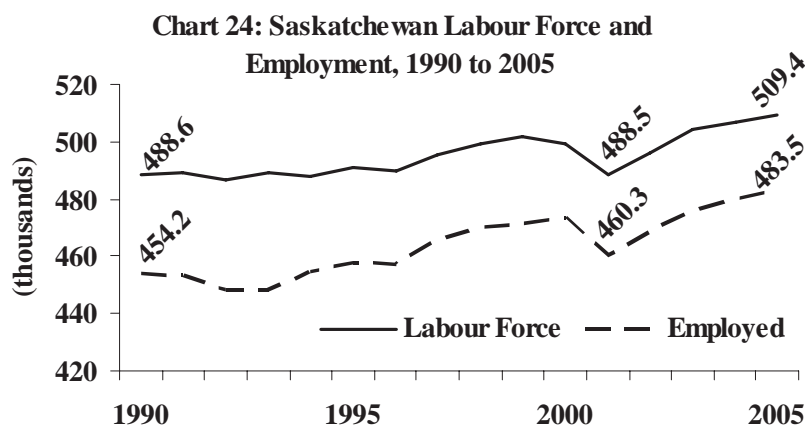
CHAPTER 6: SASKATCHEWAN – LABOUR FORCE

Several common measures of economic performance are linked to the labour force and, more specifically, to the economy's use of labour. These data are indicative of the extent to which the economy is providing jobs to people and, since most people in our economy derive their livelihood from employment, are often considered to be primary indicators of an economy's health or effectiveness.

Labour Force and Employment

The labour force in Canada is defined to include those people fifteen and older who are either employed or available for employment. This indicator excludes the very young, who are not considered eligible for employment and anyone who is not interested in employment, regardless of their reason for being out of the labour force. The number of people in the labour force is estimated through a Statistics Canada monthly survey of households in which selected households are asked about the activities of household members. The results of this sample survey are extrapolated to estimate the activities of the general population at large. Employment data reflect those people who have been employed in any capacity (full time or part time) over the period of the survey.

Chart 24, below, provides a fifteen-year history of the estimated labour force and employment levels for Saskatchewan.



Source: Statistics Canada, *Historical Labour Force Statistics*, January, 2006.

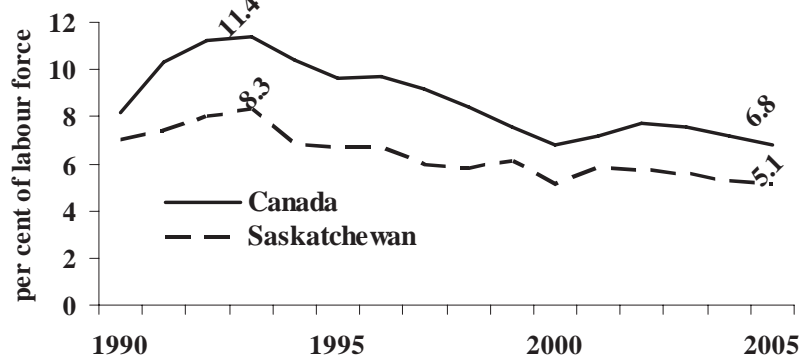
As can be seen from the chart, Saskatchewan's labour force grew fairly consistently from 1990 to a peak of 501,900 in 1999 before dropping to 488,800 in 2001. Since then, there has been a steady increase in the labour force which averaged 509,400 in 2005, an increase of 4.2 per cent or nearly 21,000 people between 1999 and 2005.

Employment levels have followed a very similar pattern, peaking in 2000 before dropping to 460,600 in 2001. Since then, employment has grown by 5.0 per cent or 22,900 to a new level of 483,500 in 2005. In 2005, employment averaged 94.9 per cent of the labour force in the province as compared to 93.0 per cent in 1990, 94.0 per cent at the previous peak in 1999 and 94.2 per cent in 2001.

Unemployment Rate

The unemployment rate is the statistical inverse of the employment rates discussed above. Using the same labour force survey, Statistics Canada estimates the number of people in each area who have not worked during the reference period but were willing to work and were seeking employment. The annual average unemployment rates for Saskatchewan and Canada are shown in Chart 25, below.

Chart 25: Saskatchewan and Canada Unemployment Rates, 1990 to 2005



Source: Statistics Canada, *Historical Labour Force Statistics*, January, 2006.

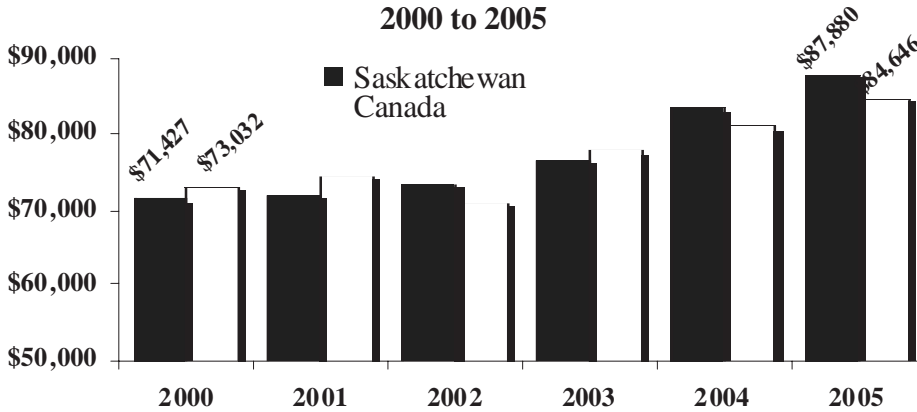
In 2005, employment averaged 94.9 per cent of the labour force in the province as compared to 93.0 per cent in 1990.

From this chart, it can be seen that unemployment rates have declined fairly consistently in both Canada and Saskatchewan from their peaks in 1993 of 11.4 per cent of the labour force (for Canada) and 8.3 per cent of the labour force (for Saskatchewan). The downward trend continued until a slight increase in unemployment rates in 2001 for both Canada and Saskatchewan and the trend has resumed since for both jurisdictions. By 2005, the average annual unemployment rate for Canada had dropped to 6.8 per cent – down 40.3 per cent (or 4.6 percentage points) from its peak in 1993. In Saskatchewan, the 2005 average annual unemployment rate was 5.1 per cent of the labour force, down 38.6 per cent (or 3.2 percentage points) from the peak in 1993. It is also noteworthy that the unemployment rate in Saskatchewan is consistently well below the national average for Canada with the 2005 Saskatchewan unemployment rate averaging only 75 per cent of the national rate.

Productivity

There are several measures to indicate the level of productivity in an economy and one commonly used is the ratio of Gross Domestic Product to average Employment (GDP per employed person). Calculated on an average annual basis, this measure provides an indication of the rate at which an economy's output is growing, relative to the rate at which employment is increasing and provides a rough measure of the output per worker, or the productivity of labour. The GDP per employed person for Saskatchewan is shown in Chart 26 and compared with the national average rates for Canada from 2000 to 2005.

Chart 26: GDP in Current Dollars per Employed Person, 2000 to 2005



Source: Statistics Canada, *Provincial and Territorial Economic Accounts, Selected Economic Indicators*, April 26, 2006.

In this case, the average Saskatchewan worker generated almost \$88,000 in GDP in 2005, up 23.0 per cent from the GDP per worker in 2000. This compares with an average Canadian productivity of just under \$85,000 in 2005, an increase of only 15.9 per cent from 2000. It is also noteworthy that Saskatchewan's labour productivity increased from 97.8 per cent of the national average in 2000 to a level of 103.8 per cent of the national average in 2005. Saskatchewan workers went from being slightly (2.2 per cent) less productive than other Canadians to slightly (3.8 per cent) more productive over this five-year period.

The average Saskatchewan worker generated almost \$88,000 in GDP in 2005, up 23.0 per cent from 2000.

Labour Force Summary

While growth in the labour force and employment was slow through most of the 1990s, and set back both nationally and provincially in 2001, growth has resumed since then. There has been a fairly consistent downward trend in unemployment rates in Saskatchewan, interrupted by the 2001 trough and rates in Saskatchewan have stayed consistently well-below national rates. In recent years, Saskatchewan's labour productivity has grown substantially, both in absolute terms and relative to the rest of Canada.

CHAPTER 7: SASKATCHEWAN PEOPLE AND PERSONAL INCOMES

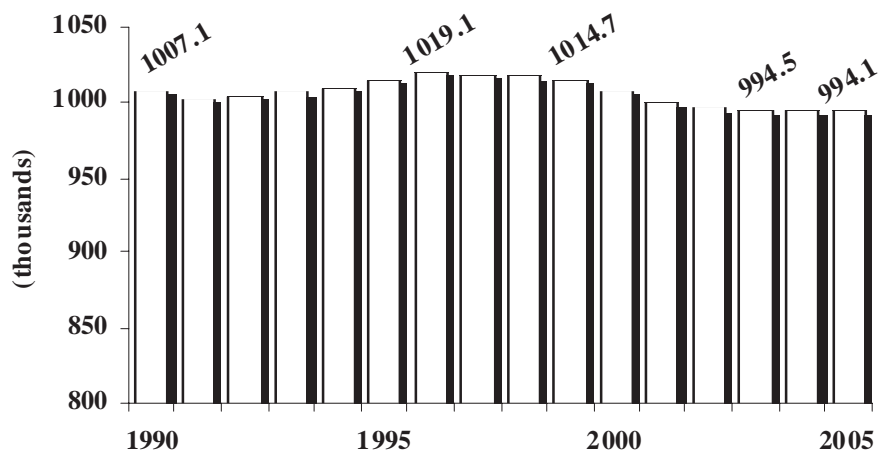
It is important to remember that economies must provide support for the people who live within them and there are a number of indicators for the extent to which an economy is serving or supporting its people. While many of the measures examined in previous chapters are focussed on the production of goods and services or the use of inputs such as capital and labour, the focus of this section will be on populations and their incomes.

People

Population counts reflect the extent to which the economy is attracting people or the capacity of the economy to support the population on the basis that people's migration habits reflect at least their estimation of economic performance.

Statistics Canada conducts census counts of the population every five years in Canada and estimates the population using various data sources and statistical techniques in the interim years. Those Statistics Canada estimates of the population for Saskatchewan are shown in Chart 27, below, for the period between 1990 and 2005.

Chart 27: Population of Saskatchewan, 1990 to 2005

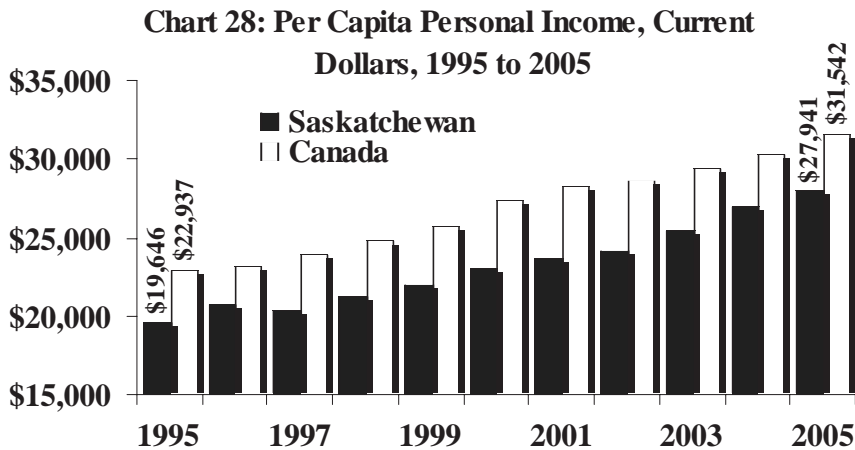


Source: Saskatchewan Bureau of Statistics, *Economic Review*, 2005.

As can be seen from the chart, the province's population experienced some growth between 1990 and 1996, peaking at just over 1,019,000, before falling to an estimated 994,500 in 2003, a decline of almost 25,000 people or 2.4 per cent over the 7 years. There has been some stabilization of the population since that time as the 2005 level is estimated at 994,100, about the same as 2003 and 2004.

Personal Incomes

Another measure of the wellbeing of people within an economy is provided by data on personal incomes, which includes income from all sources, such as: wages and salaries; income from farms and unincorporated businesses; interest and investment income; and transfers from governments and businesses. Personal incomes are often compared on a *per capita* basis to allow comparisons between economies of different population sizes. The data on personal incomes *per capita* for Saskatchewan and Canada since 1995 are shown in Chart 28, below.

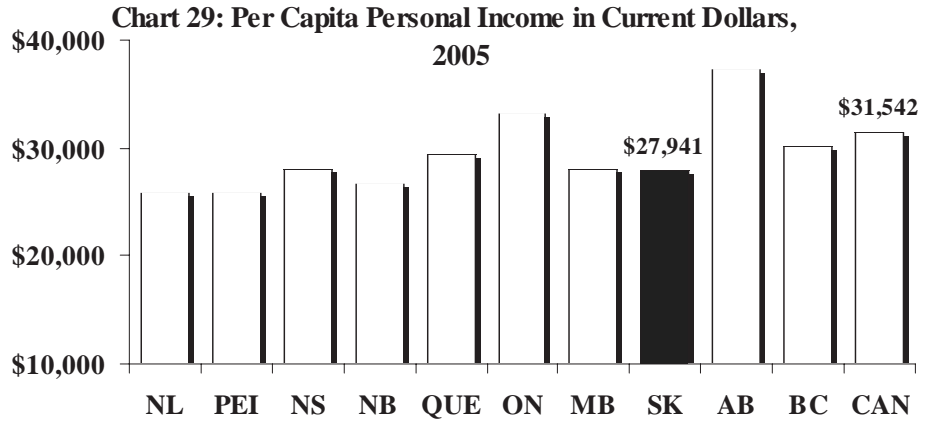


Source: Statistics Canada, *Provincial and Territorial Economic Accounts, Selected Economic Indicators*, 2005 Preliminary Estimates.

This chart shows that personal incomes in Saskatchewan have gradually gained ground on the average of personal incomes nationally. In 1995, Saskatchewan *per capita* personal incomes were an average of about \$19,700 or 85.6 per cent of the national level. In 2005, Saskatchewan incomes averaged just over \$27,900 per person or 88.6 per cent of the national average. Over this period, Saskatchewan average incomes from all sources grew by 42.2 per cent while national average income growth was 38.9 per cent.

While incomes seem to be growing faster in Saskatchewan than the national average, they continue to lag behind the level experienced elsewhere in the country. Chart 29, on the following page, shows Saskatchewan's personal income *per capita* for 2005 compared to the national average and the average in other provinces.

Saskatchewan average incomes from all sources grew by 42.2 per cent while national average income growth was 38.9 per cent.



Source: Statistics Canada, *Provincial and Territorial Economic Accounts, Selected Economic Indicators*, Preliminary, 2005.

In this case, Saskatchewan's personal income *per capita* in 2005 (\$27,900) averaged 88.6 per cent of the national average rate of about \$31,500 per person. Saskatchewan's personal income *per capita* was more or less on par with those in Manitoba and Nova Scotia, but behind the income levels in Quebec (\$29,499); British Columbia (\$30,138); Ontario (\$33,105) and Alberta (\$37,327). Only Ontario and Alberta had average *per capita* personal income levels above the national average in 2005.

People and Personal Incomes Summary

In this chapter, data have indicated that there has been a tendency towards a declining population in Saskatchewan over the past fifteen years, although the decline has virtually stopped over the past three years or so. It has been the case that Saskatchewan incomes have grown faster than the average for Canada, gradually closing in on the national average level. While average incomes in Saskatchewan are still below those in some provinces such as Alberta, British Columbia, Ontario and Quebec, they are now on par or above the levels in other provinces.

CHAPTER 8: SUMMARY

As with most economies, the performance of the Saskatchewan economy has been a matter of mixed results.

In the context of the rest of the world, the Canadian economy has performed relatively well, outpacing other developed economies in terms of growth in real economic output and in terms of level of economic output. The fact that the Canadian economy has performed relatively well provides a high bar against which to compare the performance of the Saskatchewan economy.

Against that national standard, Saskatchewan has fared well in terms of growth in output, level of investment and a number of business performance indicators and has exceeded the performance of other provincial economies. Saskatchewan incomes have also grown faster than the national average and are on par with most other provinces.

There has been a decline in population within Saskatchewan although this seems to have levelled off in the past few years and employment growth, temporarily stalled in 2001 along with the national employment growth, appears to have resumed in the past few years.

Economies may be best understood by examining trends in data rather than single pieces of information, moving pictures rather than still photos. This SIPP Provincial Progress Report on the Saskatchewan economy examines those trends to better see where they are most likely to take us in the future.

The Canadian economy has performed relatively well. Against that national standard, Saskatchewan has fared well in terms of growth in output, level of investment and a number of business performance indicators.

ENDNOTES

¹ “Business Environment”, *The Economist*, Volume 379, Number 8472, April 8th, 2006, p. 104.

² “The Economist poll of forecasters, April Averages”, *The Economist, Ibid.*, p. 102.

³ Statistics Canada, *Provincial and Territorial Accounts Review, 2005 Preliminary Estimates*, Catalogue no. 13-016-XIE.

⁴ Saskatchewan Bureau of Statistics, *Economic Review, 2005*, Number 59, p. 18.

⁵ Uranium shipment data are not available for 1998 and 1999 due to confidentiality rules.

⁶ Uranium shipment data are not available for 1998 and 1999 due to confidentiality rules.

⁷ Including: Winter Wheat, Spring Wheat, Durum, Oats, Barley, Fall Rye and Spring Rye.

⁸ Saskatchewan Agriculture and Food, *Crops – StatFact*, 10.01, 2005,12,07.

ABOUT THE AUTHOR

Jim Marshall is the Chief Economist at the Saskatchewan Institute of Public Policy. In his 25 years of government service, Jim Marshall has held many prestigious positions, such as Assistant Deputy Minister, Economic and Resource Policy Saskatchewan Industry and Resources; Senior Project Manager, Crown Investments Corporation of Saskatchewan; Executive Director, Economic and Fiscal Policy Branch, Department of Finance; and, Senior Economist, Taxation and Economic Policy Branch, Department of Finance.

After finishing his Masters of Arts (Economics) at the University of Calgary, Jim Marshall taught at the Department of Economics, Brandon University, Manitoba and conducted research for the Library of Parliament in Ottawa before starting with the Government of Saskatchewan.

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