Attention News and Business Editors: Key findings of the Saskatchewan report will be delivered by TD’s Chief Economist, Don Drummond, at two luncheon addresses: Regina Chamber of Commerce (June 4) and Saskatoon Chamber of Commerce (June 5). He is available to media following both speeches.

LASTING PROSPERITY WITHIN REACH FOR SASKATCHEWAN: TD Economics

But “heavy lifting remains” as province confronts an array of challenges

REGINA – Economists from TD Bank believe Saskatchewan has never been in a better position to enjoy long-term prosperity. In a report published today, co-authors Don Drummond and Derek Burleton examine the province’s opportunities and challenges for growth.

“The dream of lasting prosperity is clearly within reach but a lot of the heavy lifting remains,” said Mr. Drummond, TD’s Chief Economist, who was at the Regina Chamber of Commerce to launch the TD Economics report. “The province faces an array of challenges such as aging infrastructure, skills shortages and poverty. Given the government’s limited resources, it’s important to maintain realistic expectations.”

Saska-boom
Key indicators point to a soaring economy. Saskatchewan leads all other Canadian provinces in terms of population gains, retail sales, international exports, total building permits, housing starts and resale home prices.

Growth is expected to outpace the rest of Canada over the 2008-10 forecast period. The unemployment rate will fall to around 3.5 percent, well below the national level of 6-6.5 percent. New job opportunities will also attract a net inflow of residents. And while growth in home prices is likely to taper off from its torrid pace in 2007 and 2008, price gains are expected to average a still-brisk 10 percent per year in 2009-10.

The world’s ‘commodity super store’
The province’s rising fortunes are largely being fuelled by global demand for its commodities. An abundant and diversified array of resources including uranium, gold and base metals in the north; oil and gas, potash, coal and diamonds in the south, as well as timber throughout the province are all in demand.

It would be difficult to overstate the importance of the province’s resource sector. Its combined activities represent 21 percent of Saskatchewan’s economy. In 2007, the sector employed 50,000 people and contributed $4 billion to capital spending. Non-renewable resource industries raised $2 billion in direct royalties to Saskatchewan’s government in fiscal 2007-08.

Equally important, surging resource markets are breathing new life into many communities right across the province. All regions have recorded gains in employment since 2003, led by Central-east (Yorkton and Melville) with a 10 percent rise and Central-west (Saskatoon and Battleford) with a 9 percent rise.

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Canada is also a prime beneficiary. Saskatchewan racked up a merchandise trade surplus of $9 billion in 2007, representing about one-fifth of Canada’s overall trade surplus.

Saskatchewan’s “wheat economy” is also experiencing strong upward trend in grain and crop prices — albeit with fluctuations -- as annual consumption outpaces supply. Moreover, US plans to spur ethanol and bio-diesel production have increased acreage to corn at the expense of wheat and other crops, driving up longer-term price expectations for many of the province’s agri-products.

However soaring costs for fertilizer, transportation and energy costs have held back growth in farm incomes. In the livestock industry, where prices have not risen as rapidly, the squeeze has been particularly noticeable.

**Different this time around**

Saskatchewan has recorded commodity-driven booms in the 1920s, 1950s and 1970s. All, however, proved temporary in nature.

But the make-up of the province’s current boom is different. Mr. Drummond said “While the provincial economy is heavily weighted in resources, the sector’s diversity is unrivalled in Canada and matched by few jurisdictions around the world.”

This enables Saskatchewan to better weather price fluctuations in commodities. Rallies, for instance, in some markets such as crude oil and metals are likely to encounter headwinds in the latter half of 2008. There may be some pull-back in prices but they will remain quite high. (It is very unlikely to see the kind of price collapse that ended previous Saskatchewan commodity booms.) Moreover a pull-back in these areas will be counterbalanced by strength elsewhere, notably potash.

However the province’s economic revival cannot be simply attributed to external forces, according to Mr. Drummond. “Tough measures to improve the province’s business climate were made over the past 10-15 years — some that required huge sacrifices by the public. The good news is they’re now coming home to roost.”

The 1990s saw the provincial government grapple with, and ultimately slay its deficit. Successive governments have since maintained a balanced budget.

The government’s strong fiscal position improved the overall climate for business, as significant savings in lower interest costs have been passed back to households and companies in the form of lower taxes. Today, Saskatchewan is one of the most affordable provinces to live and do business. It is also emboldened by its current pro-growth government that plans to build on some of its recent progress in strengthening the province’s economic landscape. The fact that the new government has consistently said that it will not be raising oil and gas royalty rates is a case in point.

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Onwards and upwards
It is not all blue skies. The TD Economics report cited key challenges that must be addressed to achieve long-term prosperity. Some examples include:

Aging Infrastructure: Today’s growing economy is generating increased needs for infrastructure across the province. However, as the recent Alberta experience can attest, efforts to accommodate these needs during a period of soaring expansion can “stoke the fire” and result in, for instance, escalating construction costs. Government will need to set construction priorities, establish innovative funding partnerships with the private sector, apply user fees where feasible, and enable municipal governments to raise monies to pay for its infrastructure.

Cost competitiveness: Saskatchewan businesses pay almost $900 million per year in order to comply with government regulations. The province may soon find itself having a corporate income tax rate that is well above some other provinces. Its retail sales tax is levied on a lot of capital goods, which impedes growth. And it still has a capital tax on financial institutions despite there being a broad consensus that capital taxes are the most economically-damaging of all.

Diversification: The ingredients are in place to transform Saskatchewan into a clean energy powerhouse, and in turn, provide the province with long-term benefits from the export of energy and knowledge accumulation. This will require connecting the resource potential (i.e., oil sands, natural gas, coal, feedstock for bio-fuels and uranium) with the province’s solid foundations in research, including the Petroleum Technology Research Centre, the International Test Centre for Carbon Dioxide Capture, the Saskatchewan Research Council (including the new Biofuels Test Centre), and the collective expertise at the province’s universities. Strong partnerships between the public and private sectors will also be critical.

Skills shortage: An estimated 18,000 jobs are vacant as a result of inadequate skills. Government should redouble its efforts to boost the province’s share of skilled migrants from other countries, and encourage more research and development activities, as a way to lure highly-educated individuals to the province.

Aboriginal employment: The benefit of boosting labour force participation rates among aboriginals in the workforce is well-documented, better enabling the province, for instance, to afford public services down the road, such as health care. Significant gaps remain between aboriginals and non-aboriginals, with on-reserve aboriginals recording particularly low labour-market and education outcomes. New strategies to improve educational outcomes would be one way the government can help narrow the gap.

Poverty: Leaders must continue knocking down many of the roadblocks to higher education and earnings, including lowering the extremely high tax rates among the lowest income earners. Also, the scarcity of affordable housing can only be tackled with holistic approaches that lower demand (i.e., raises income for low income individuals) and boost supply. Rent regulations, while providing some short-term relief, inflame the problem over the longer run by lowering the supply of housing.

“Even though economic cycles will remain a natural part of the Saskatchewan economy’s evolution, the province has a huge opportunity to both extend the peaks and mitigate the valleys, hence yielding a considerably stronger rate of growth over the long run. With respect to pulling off this feat, there is no single silver bullet. But ambitious visions must be tempered by realistic expectations, and an unwavering fiscal discipline,” said Mr. Drummond.
A copy of the report ‘Resurgent of the Resourceful’ can be found at www.td.com/economics.

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